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Fiscal Years 2008 – 2009

Revenue Estimates
General Fund and Select Funds

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Revenue Estimates

2009 Biennium



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Volume 2



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ECONOMIC OVERVIEW

Introduction

The state budget is affected by state, national, and world economic conditions. The demand for public services is affected by population growth and how the state's residents are faring economically. The cost of providing public services is affected by general inflation and the costs of specific government purchases, such as utilities. The revenue state government has to pay for public services depend on taxpayers' incomes, property values, and business activity.

The executive budget is based on assumptions about economic conditions through the 2009 biennium. This section describes the key economic assumptions that are common to all of the revenue estimates. It also provides some background by describing long-term trends in the state economy. The sections describing individual revenue estimates explain how each revenue source is related to economic conditions and explain any assumptions that are unique to specific revenue sources.

National Economic Conditions

The national economy went through a mild recession in 2000 and 2001. The economy began to recover in 2002 as growth of gross domestic product (GDP) accelerated. GDP growth reached 3.9% in 2004 and moderated to 3.2% in 2005. GDP growth is forecast to be 2.36% in 2007, 3.30% in 2008, and 3.33% in 2009. National employment declined from the second quarter of 2001 through the third quarter of 2003. National employment rebounded growing at 1.1% in 2004, 1.5% in 2005, and is forecast to grow 1.4% by the end of 2006. National employment growth is forecast to be 1.1% in 2007, 1.4% in 2008, and 1.6% in 2009. Inflation peaked at 2.9% in 2005 and at the end of 2006 it is forecast to be 2.8%. Inflation is expected to be approximately 2% for 2007 though 2009.

Montana Production and Income

Table 1 shows Montana's actual gross state product (GSP) and personal income from 1996 through 2005 and Global Insight's forecasts for 2006 through 2009.

In 2000 and 2001, GSP grew rapidly as the national economy went into a recession. GSP grew more slowly in 2002, but accelerated in 2003. In 2004 and 2005, GSP grew 8.26% and 8.36% respectively, much faster than in any recent year. In 2006, GSP has remained quite high. However, Global Insight forecasts GSP growth to moderate for 2007 through 2009.

Personal income in Montana grew rapidly in 2000 and 2001. This growth was due to a combination of increasing economic activity in the state, as reflected in GSP growth, and gains from the stock market boom. Personal income grew by only 2.06% in 2002, but rebounded in 2003, growing 5.50%. In 2004 and 2005 personal income growth grew rapidly at 6.63% and 5.36%, respectively. Personal income growth in 2006, at 7.66%, is higher than it has been since 1996. Global Insight forecasts personal income growth to moderate for 2007 through 2009.

Table 1
Gross State Product and Personal Income
1996 through 2009
($ million)

Year	Gross State Product	% Change	Personal Income	% Change
1996	18,425	3.31%	16,880	4.95%
1997	19,141	3.88%	17,688	4.79%
1998	19,884	3.88%	18,857	6.60%
1999	20,408	2.64%	19,373	2.74%
2000	21,366	4.69%	20,716	6.94%
2001	22,473	5.18%	22,359	7.93%
2002	23,564	4.85%	22,819	2.06%
2003	25,476	8.11%	24,073	5.50%
2004	27,581	8.26%	25,670	6.63%
2005	29,886	8.36%	27,046	5.36%
2006	**32,094**	**7.39%**	**29,118**	**7.66%**
2007	**33,790**	**5.29%**	**30,856**	**5.97%**
2008	**35,598**	**5.35%**	**32,571**	**5.56%**
2009	**37,414**	**5.10%**	34,399	**5.61%**

Montana Employment and Population

Table 2 shows Montana actual non-farm employment and population for 1996 through 2005 and Global Insight's forecasts through 2009.

The recession negatively impacted Montana's labor market in 2001 as growth in non-farm employment decreased from 1.91% to 1.06%. In 2003, employment rebounded slightly and in 2004, non-farm employment grew by an eight-year high of 2.64%. Growth is forecast to be 2.80% at the end of 2006, and is forecast to remain above 2.00% in 2007. Growth is forecast to eventually moderate at about 1.4% in 2008 and 2009.

Table 2
Montana Employment and Population
1996 through 2009

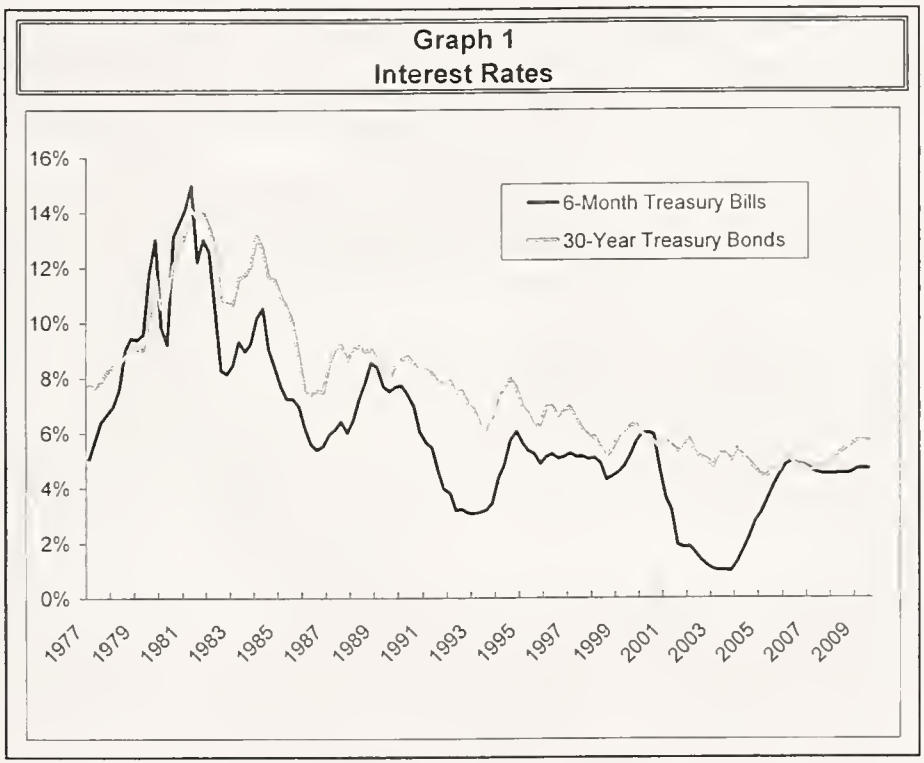
Year	Employ-ment	% Change	Popula-tion	% Change
1996	360.308	2.73%	886.321	1.02%
1997	364.892	1.27%	890.120	0.43%
1998	373.083	2.24%	893.221	0.35%
1999	380.308	1.94%	898.361	0.58%
2000	387.575	1.91%	903.666	0.59%
2001	391.683	1.06%	906.741	0.34%
2002	395.983	1.10%	911.527	0.53%
2003	400.692	1.19%	919.105	0.83%
2004	411.250	2.64%	927.989	0.97%
2005	420.492	2.25%	936.564	0.92%
2006	**432.249**	**2.80%**	**943.026**	**0.69%**
2007	**441.363**	**2.11%**	**947.760**	**0.50%**
2008	**447.376**	**1.36%**	**952.345**	**0.48%**
2009	**453.606**	**1.39%**	**956.885**	**0.48%**

In the second half of the 1990s and early 2000s, Montana's population grew at about one-half of a percent per year. Population growth accelerated in 2003 through 2005 and leveled off in 2006. Global Insight forecasts population to increase at 0.5% for 2007 through 2008.

Interest Rates

The state earns interest on trust funds, such as the coal severance tax trust fund, the school trust, and the tobacco settlement trust, and on short-term cash holdings in the general fund and other state funds. The state also pays interest on funds it borrows. Trust fund interest earnings and payments on new long-term debt are affected by changes in long-term interest rates. Most bonds held by the state trust funds are kept for several years; consequently, trust fund interest earnings are affected more by long-term trends than year-to-year variations. On the other hand, interest earnings on cash balances and interest payments on short-term debt are affected by changes in short term interest rates as well as long-term trends.

Figure 1 shows interest rates on 6-month and 30-year U.S. Treasury obligations from 1977 through the third quarter of 2006 and Global Insight's forecasts through 2009.



Interest rates hit historic highs in 1981, with both short-term and long-term interest rates at over 14%. Interest rates have varied over the course of business cycles, but generally decreased from 1981 through 2003. Short-term interest rates are more volatile than long term rates. Short term rates fall when the Federal Reserve, attempting to stimulate the economy, decreases the federal funds rate (the rate it charges banks). When the Federal Reserve endeavors to control inflation by increasing the federal funds rate, short-term interest rates rise.

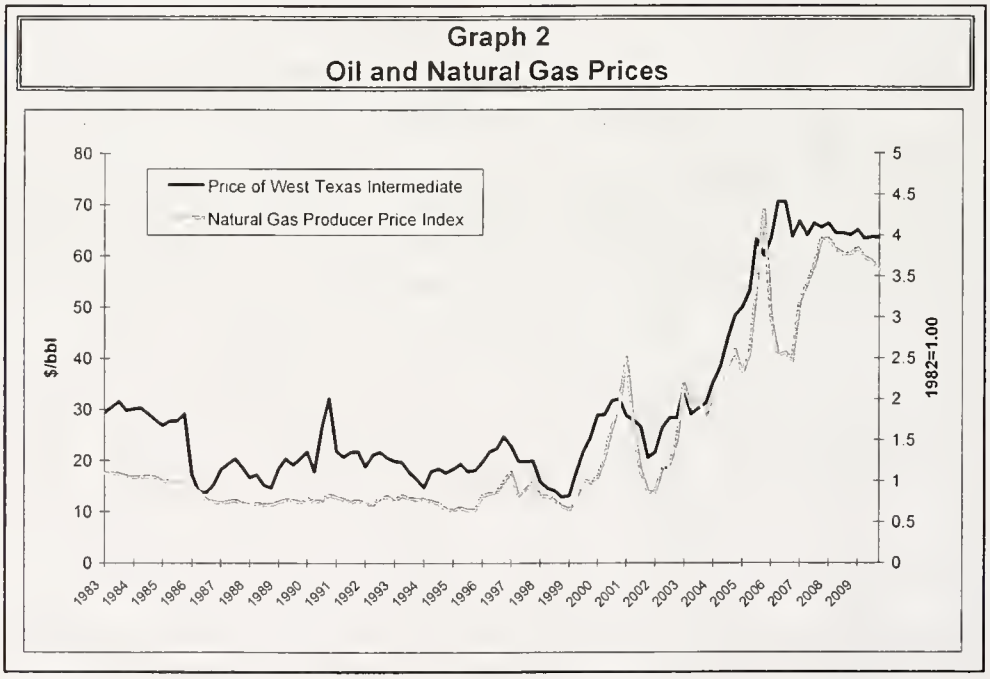
Short-term interest rates hit all-time lows early in 2004. Interest rates began rising in the second quarter of 2004 and continued to rise through the first half of 2006. Interest rates are forecast to slowly decline through 2007 then increase in 2008 and 2009.

Oil and Natural Gas Prices

Oil and natural gas prices affect the state budget in several specific ways. The state taxes oil and natural gas production, receiving royalties from production on state lands and a share of the royalties from production on federal land located in the state. State government also buys gasoline and diesel fuel for state vehicles and natural gas for state buildings. Energy prices also affect the state economy in general, with higher prices translating into higher incomes for the energy producing sector and higher costs for the rest of the economy.

Figure 2 shows national oil and natural gas prices from 1983 through the third quarter of 2006 and Global Insight's forecasts through 2009. It shows the price of the standard grade of crude oil, West Texas Intermediate, measured on the left axis and a price index for natural gas, with the average price in 1982 scaled to 1.00, on the right axis.

Graph 2
Oil and Natural Gas Prices



Oil prices are quite volatile. Natural gas prices have become more volatile since 1995. Energy consumption is relatively insensitive to prices in the short-run. As a result, short-run changes in supplies can produce large price swings. In the long-run, energy users respond to higher prices by conserving and using energy more efficiently. Oil and

gas producers respond to sustained higher prices by increasing exploration and development activities which increase supplies.

From about 1987 through 1999, oil and natural gas prices were relatively low as world supplies were plentiful. However, for several reasons, oil and natural gas prices have risen significantly since 1999. First, world supplies have been stagnant. Oil and gas fields developed in the 1970s are being depleted and relatively low oil prices have limited further exploration. Second, world demand has steadily grown as higher incomes in developing countries, particularly China, have enabled consumers to afford cars, appliances, and other energy using consumer goods. Third, short-term supply disruptions such as scares due to war, political instability in producing regions, and hurricane damage have led to short-term price spikes.

Both oil and natural gas prices peaked in the second quarter of 2006 and thereafter dropped. Oil is forecast to remain at approximately $65 per barrel through 2009. However, natural gas prices are expected to rebound to in 2007 and remain above a price index value of 3.6.

Property Values

Property tax is the largest revenue source in Montana. State and local governments, school districts, and special improvement districts collect over $1 billion in property taxes and related fees each year. Property taxes depend on mill levies, property tax rates (the ratio of taxable value to market value), and property values.

In the ten-year period from calendar year 1995 (FY 1996) to calendar year 2005 (FY 2006), the statewide average mill levy increased 48.6%. Mill levies vary dramatically between different cities and different counties. For example, county mill levies ranged from 218.57 mills in Rosebud County to 690.36 mills in Silver Bow County in 2006. These variances result in the individual properties having considerable differences in their property tax bill for comparably valued property.

Past legislation reduced tax rates for most classes of property. As tax rates decline and more property is exempted, the amount of property tax that must be raised from the remaining property tax owners increases. Table 3 shows statewide taxable values for calendar year 1998 and calendar year 2006, the percent of total taxable value in each property class, and the percent change in taxable value for each class.

Total taxable value increased 0.4% from tax year 1998 to tax year 2006. This is primarily attributable to legislation that reduced the tax rates on specific property classes and exempted some types of property from taxation. Total statewide taxable value is forecast to increase in 2007 and 2008. All the forecast increase is due to new property in class 4 residential and commercial real property, class 8 business equipment, and class 9 pipelines and electric transmission. The taxable values of other classes of property are forecast to decline or remain the same.

Table 3
Property Taxable Values Calendar Year 1998 and 2006
Change in Share of Property Tax Base

Tax Class	Description	Calendar Year 1998 Tax Rate	Calendar Year 1998 Taxable Value	Calendar Year 1998 % of Base	Calendar Year 2006 Tax Rate	Calendar Year 2006 Taxable Value	Calendar Year 2006 % of Base	% Change Taxable Value
1	Mine Net Proceeds	100.000%	7,625,083	0.4%	100.000%	3,252,295	0.2%	-57.3%
2	Gross Proceeds Metal Mines	3.000%	8,780,907	0.5%	3.000%	21,106,138	1.1%	140.4%
3	Agricultural Land	3.816%	143,007,340	7.4%	3.300%	141,002,419	7.2%	-1.4%
4 Res	Residential Real Property	3.816%	704,132,657	36.3%	3.300%	876,260,627	44.9%	24.4%
4 Com	Commercial Real Property	3.816%	247,920,400	12.8%	3.300%	307,560,366	15.8%	24.1%
Sub 4	*Subtotal Class 4*	*3.816%*	*952,053,057*	*49.0%*	*3.300%*	*1,183,820,993*	*60.7%*	*24.3%*
5	Pollution Control Equipment	3.000%	34,074,765	1.8%	3.000%	35,077,724	1.8%	2.9%
6	Livestock	4.000%	23,833,179	1.2%	0.000%	-	-	-
7	Non-Centrally Assessed Utilities	8.000%	1,783,935	0.1%	8.000%	1,068,358	0.1%	-40.1%
8	Business Personal Property	6.000%	203,383,266	10.5%	3.000%	135,612,793	7.0%	-33.3%
10	Forest Land	0.790%	7,677,880	0.4%	0.350%	6,815,519	0.3%	-11.2%
12	Railroad and Airline Property	6.170%	65,266,087	3.4%	3.810%	41,576,814	2.1%	-36.3%
9 & 13	Telecom. & Electric Property	12.000%	494,534,742	25.5%	12% & 6%	378,795,900	19.4%	-23.4%
14	Wind Power Generation	-	-	-	3.000%	2,555,683	0.1%	100.0%
	Totals		1,942,020,241			1,950,684,636		0.4%

The class 4 property share of the tax base increased from 49% in 1998 to about 61% in 2006. The percent share of the tax base that is class 4 property is expected to gradually increase in the future. Under the current property tax structure, class 4 property pays the majority of any property tax increases. The taxable value of class 8 property taxable value declined from 1998 to 2006 as its respective tax rate was reduced from 6% to 3%. Class 14 wind power generation represents new class of property added in 2005.

Structural Trends

Montana's population and economy have undergone significant structural changes. The population has become older, the mix of industries has changed, and the mix of occupations has changed

Population

Table 4 shows the 1980, 1990, and 2000 census counts of Montana population grouped into ten-year age groups and the percent of the total population in each group. For 1990 and 2000, it also shows the ten-year survival percentage for the groups aged 10 and up. This is the ratio of the number of people in an age group to the number in the next lower age group ten years earlier. For the 80 and over age group, it is the ratio of people 80 or over to the number of people 70 or over ten years earlier. For the total population, it is the ratio of total population to the total ten years earlier.

Table 4
Age Structure of Montana Population

Age	1980 Census Persons	1980 Census %	1990 Census Persons	1990 Census %	1990 Census 10 yr survival	2000 Census Persons	2000 Census %	2000 Census 10 yr survival
0-9	125,315	15.9%	125,603	15.7%		115,931	12.8%	
10-19	136,959	17.3%	120,285	15.0%	96.0%	140,275	15.5%	111.7%
20-29	145,395	18.4%	104,491	13.0%	76.3%	110,151	12.2%	91.6%
30-39	111,036	14.0%	134,798	16.8%	92.7%	118,328	13.1%	113.2%
40-49	77,291	9.8%	104,085	13.0%	93.7%	149,050	16.5%	110.6%
50-59	74,029	9.4%	71,729	8.9%	92.8%	110,143	12.2%	105.8%
60-69	64,756	8.2%	66,959	8.3%	90.4%	70,912	7 8%	98.9%
70-79	37,348	4.7%	49,789	6.2%	76.9%	54,699	6.1%	81.7%
80+	18,263	2.3%	24,201	3.0%	43.5%	34,004	3.8%	46.0%
Total	790,391	100.0%	801,939	100.0%	101.5%	903,494	100.0%	112.7%

Aging Population

In 1980, the 20 to 29 age group was the largest. People in this age group were born between 1951 and 1960, the final years of the post-World War II baby boom and the years immediately after. People born between 1951 and 1960 were in the 30 to 39 age group in 1990 and the 40 to 49 age group in 2000, and make up the largest age group in those years as well.

In 1990 and 2000, the second largest age group was people born between 1981 and 1990, who were between 0 and 9 in 1990 and between 10 and 19 in 2000. This second peak in the age distribution is caused by the children of the baby boomers and is often called the baby boom echo.

As the baby boomers have aged and life expectancies have increased, the population as a whole has become older. As Table 5 shows, in 1980 34% of the population was 40 or over and 15% was 60 or over. In 1990, 40% of the population was 40 or over and 18% was 60 or over. By 2000, the percentage 40 or over had increased to 46% and the percentage 60 or over remained at 18%. This aging of the population mirrors the national trend and will continue. In 2010, the 40 or over age group is forecast to remain the largest with over 50% of the population; however, more baby boomers will move into the 60 or over age group.

Table 5
Aging of Montana Population

	1980 Census	1990 Census	2000 Census	2010 Forecast
Age 40 or Over	34.4%	39.5%	46.4%	50.2%
Age 60 or Over	15.2%	17.6%	17.7%	20.0%

Population Migration

The ten-year survival percentages, shown in Table 4, are impacted by population growth as well as migration into and out of the state. The numbers in the totals row on the bottom of the table show the change in total population from one census to the next. Montana had very little population growth from 1980 to 1990. Montana's population in 1990 was only 101.5% of the 1980 population. In 2000, Montana's population was 112.7% of what it had been in 1990. This 12.7% population growth is just slightly less than national population growth of 13.2%.

In a population with no one moving in or out, ten-year survival percentages reflect mortality. They are nearly 100% for the younger age groups and fall off rapidly after middle age. The 1990 survival percentages follow this pattern with one significant exception. The 20 to 29 age group's survival percentage is 76%. This shows that at least 20% of the 10 to 19 year olds who lived in Montana in 1980 had moved out of the state by 1990, when they were between 20 and 29 years old. Some people in this age group moved into the state, so the percentage that is left must be greater than 20%. For the other age groups, approximately all people moving into the state equaled those moving out of the state.

Population growth from 1990 to 2000 entailed a combination of an increase due to more births than deaths and net in-migration. Survival percentages are more than 100% for four age groups: 10 to 19, 30 to 39, 40 to 49, and 50 to 59. This indicates that more people in these age groups moved to the state than moved away. In the 1990s, people over 30 moved to the state and brought their children. In 2000, the survival percentage for the 20 to 29 age group is only 92%, indicating that more people in this age group moved away than moved into the state.

Economic Structure

Table 6 shows the Montana's GSP divided into eleven sectors. Actual GSP, divided by sector, is shown for 1992, 1996, 2000, and 2004, and forecast amounts are shown for 2008. The sectors are sorted by descending order of the output value in 1992. For sectors that have grown faster than the economy as a whole, the percent of total output has increased over time. For sectors that have not grown as fast as the economy, the percent has decreased.

Table 6
Montana Gross State Product

Economic Sector	1992 $ Million	1992 % of Total	1996 $ Million	1996 % of Total	2000 $ Million	2000 % of Total	2004 $ Million	2004 % of Total	2008 $ Million	2008 % of Total
Services	3,178	20.6%	3,993	21.7%	4,991	23.4%	6,424	23.3%	**8,528**	**24.0%**
Finance, Insurance, & Real Estate	2,288	14.8%	2,782	15.1%	3,409	16.0%	4,487	15.1%	**5,920**	**16.6%**
Transp., Comm., & Util.	2,073	13.4%	2,301	12.5%	2,495	11.7%	3,031	10.0%	**3,844**	**10.8%**
State and Local Gov't, Schools	1,744	11.3%	2,115	11.5%	2,464	11.5%	3,037	11.8%	**3,715**	**10.4%**
Retail Trade	1,217	7.9%	1,488	8.1%	1,665	7.8%	2,105	10.2%	**2,559**	**7.2%**
Manufacturing	975	6.3%	1,110	6.0%	1,277	6.0%	1,321	6.3%	**1,734**	**4.9%**
Agriculture, Forestry, & Fishing	820	5.3%	959	5.2%	753	3.5%	1,331	2.5%	**1,398**	**3.9%**
Federal Government	668	4.3%	684	3.7%	856	4.0%	1,074	4.9%	**1,285**	**3.6%**
Wholesale Trade	914	5.9%	1,133	6.2%	1,230	5.8%	1,521	6.2%	**1,898**	**5.3%**
Mining	581	3.8%	633	3.4%	720	3.4%	1,073	3.1%	**1,672**	**4.7%**
Construction	721	4.7%	928	5.0%	1,190	5.6%	1,700	6.6%	**2,455**	**6.9%**
Military	281	1.8%	299	1.6%	316	1.5%	477	6.6%	**589**	**1.7%**
Total	15,460	100.0%	18,425	100.0%	21,366	100.0%	27,581	106.6%	**35,598**	**100.0%**

- Services and finance, insurance, and real estate are the two largest sectors, together accounting for 38% of the value of output in 2004. Both sectors have grown faster than the economy as a whole since 1992 and are forecast to continue this trend. These combined sectors are forecast to account for 41% of GSP in 2008.

- Construction and state and local government and schools have also grown as a percent of GSP through 2004. Local government and schools is forecast to decline as a percent of GSP in 2008 while construction is forecast to grow as a percent of GSP in 2008. These two sectors will, as a total, remain at the same percent of GSP as they were previously.

- Retail trade and wholesale trade have consistently grown at nearly the GSP growth rate. However, in 2008 both retail trade and wholesale trade are forecast to decline as a percent of GSP.

- Transportation, communications and utilities, manufacturing, and mining have historically grown more slowly than the economy as a whole. Together they accounted for 25% of output in 1992, but they are forecast to account for only 20% in 2008. Transportation, communications and utilities and mining are forecast to increase as a percent of GSP in 2008.

- The agriculture, forestry, and fishing sector and military sector declined as a percent of GSP from 1992 through 2000, but are forecast to increase in 2008.

Like the national economy, the Montana economy has increasingly become a service-producing economy rather than a goods-producing economy. Four sectors produce services almost exclusively: 1) finance, insurance, and real estate; 2) retail trade; 3) wholesale trade and 4) other services. Four sectors produce physical goods almost

exclusively: 1) manufacturing; 2) agriculture, forestry and fishing; 3) mining; and 4) construction. The other four sectors produce a mix of goods and services. Together, the service-producing sectors accounted for 49% of state income in 1992, and they are predicted to account for 53% of state income in 2008. The goods-producing sectors accounted for 20% of state income in 1992, and are forecast to make-up 20% of state income in 2008. The mixed sectors accounted for 31% of state income in 1992 and are predicted to account for 27% of state income in 2008.

Table 7 shows actual Montana wage and salaries, divided into fifteen sectors[1], for 1992, 1996, 2000, and 2004, and forecast amounts for 2008.

Table 7
Montana Wage and Salary Income

	1992		1996		2000		2004		2008	
Economic Sector	$ Million	% of Total	$ Million	% of Total	$ Million	% of Total	$ Million	% of Total	$ Million	% of Total
State & Local Govern't, Schools	1,167	17.9%	1,407	17.4%	1,652	16.6%	1,966	16.1%	**2,324**	**14.7%**
Educational & Health Svcs	731	11.2%	983	12.1%	1,265	12.7%	1,657	13.6%	**2,141**	**13.5%**
Retail Trade	650	10.0%	798	9.9%	971	9.7%	1,171	9.6%	**1,416**	**9.0%**
Construction and Mining	527	8.1%	685	8.5%	848	8.5%	1,166	9.6%	**1,824**	**11.5%**
Manufacturing	515	7.9%	590	7.3%	716	7.2%	685	5.6%	**878**	**5.6%**
Transportation, Warehousing, & Utilities	454	7.0%	524	6.5%	601	6.0%	639	5.2%	**782**	**4.9%**
Federal Government	417	6.4%	464	5.7%	566	5.7%	689	5.7%	**787**	**5.0%**
Wholesale Trade	355	5.5%	434	5.4%	507	5.1%	584	4.8%	**752**	**4.8%**
Professional & Business Svcs	403	6.2%	574	7.1%	802	8.1%	1,032	8.5%	**1,553**	**9.8%**
Leisure & Hospitality	348	5.3%	456	5.6%	544	5.5%	683	5.6%	**888**	**5.6%**
Financial Activities	327	5.0%	420	5.2%	559	5.6%	746	6.1%	**1,061**	**6.7%**
Other Services	199	3.1%	270	3.3%	325	3.3%	399	3.3%	**463**	**2.9%**
Military	154	2.4%	159	2.0%	168	1.7%	262	2.1%	**293**	**1.9%**
Information	143	2.2%	171	2.1%	234	2.3%	273	2.2%	**338**	**2.1%**
Agriculture, Foresty, & Fishing	120	1.8%	158	2.0%	206	2.1%	237	1.9%	**317**	**2.0%**

There are five sectors where total wage and salary incomes have consistently grown faster than in the economy as a whole: 1) educational and health services, 2) construction and mining, 3) professional and business services, 4) leisure and hospitality, and 5) financial activities. In three sectors, wage and salary incomes have grown almost as fast as in the economy as a whole: 1) information, 2) agriculture, fisheries and forestry, and 3) other services. In the other seven sectors total wage and salary incomes have grown, but not as fast as in the economy as a whole.

Economic Overview Summary

Wage and salary income in Montana is expected to grow by over 4.4% annually through 2009. Growth in non-farm employment is forecast to moderate in the next three years. Population is forecast to increase at approximately 0.5% annually. The Montana

[1] The growth in total wages and salaries for a sector is due to a combination of growth of employment in that sector and growth of average wages. These differ between sectors.

population is aging, as the 20-29 year age group is leaving the state and older people are moving into the state.

Oil prices have recently decreased, and are forecast to remain stable at the current, historically high price. Natural gas prices are forecast to increase and then level out at a historically high price level. High oil and natural gas prices will yield greater revenue for the state. Property taxes revenue is forecast to increase through 2009.

Generally, the economy has changed from a goods-based economy into a service economy. The impacts of the transition to a service-based economy coupled with an aging population should be monitored and considered in developing the future tax structure of the state.

GOVERNOR
BRIAN SCHWEITZER

STATE OF MONTANA

GENERAL FUND REVENUE ESTIMATES

OBPP Staff:

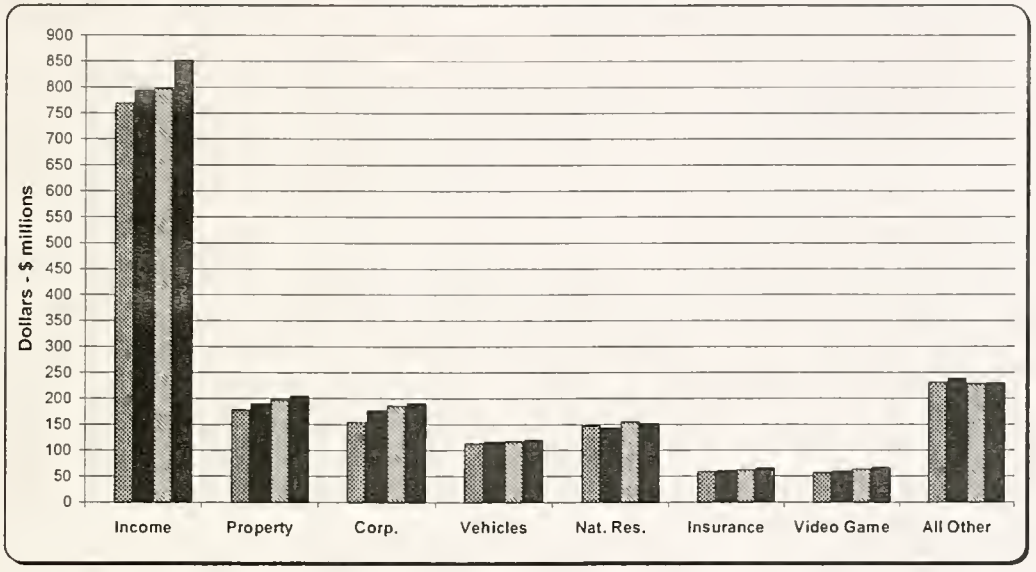
Judy Paynter	444-2554
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Katie Genadek	444-1337
Matt Slonaker	444-3166

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

General Fund Revenue Estimate Summary

The state general fund accounts for all the state's financial resources, except for those legally mandated to be accounted for in another fund. Chart 1 divides general fund revenue into eight groups. The seven major revenue sources comprise 87.76% of general fund revenue, and each for of these revenue sources[1] account for over $60 million.

Chart 1
General Fund Revenue By Type



Individual income tax is the largest revenue source. Individual income tax revenue is forecast to be $851.073 million in FY 2009, accounting for 45.29% of the general fund revenue. Property tax revenue is forecast to be $204.961 million, representing 10.91% of the general fund revenue. Corporate license tax revenue is forecast to be $190.314 million in FY 2009, representing 10.13% of general fund revenue. Each other revenue category comprises less than 10% of the general fund revenue in FY 2009.

Table 1, on the following page, shows the 34 general fund revenue categories. The six major taxes, which bring in more than $60 million a year for each tax, comprise 79.72% of the general fund revenue in FY 2009. As a group, natural resource taxes contribute 8.04% of the general fund in FY 2009. Each other revenue group comprises less than 3.1% of the total general fund revenue in FY 2009.

[1] Vehicle revenue is both vehicle taxes and registration fees. The natural resource category is comprised of oil and natural gas production taxes, U.S. mineral royalties, coal severance tax, metal mines tax, electrical energy tax, and wholesale energy transaction tax.

Table 1
General Fund Revenue - FY 2006 through FY 2009

Revenue Category	Actual FY 2006	Forecast FY 2007	Forecast FY 2008	Forecast FY 2009	FY 2009 % of Total General Fund
MAJOR TAXES					
Individual Income Tax	768.912	793.826	797.002	851.073	45.29%
Property Tax	177.639	189.423	197.068	204.961	10.91%
Vehicle Taxes and Fees	113.292	116.739	117.469	120.267	6.40%
Corporation License Tax	153.675	176.963	185.933	190.314	10.13%
Insurance Premiums Tax	58.795	60.556	62.675	64.871	3.45%
Video Gambling License Tax	57.277	60.002	63.322	66.641	3.55%
Total Major Taxes	**1,329.591**	**1,397.510**	**1,423.468**	**1,498.127**	**79.72%**
NATURAL RESOURCE TAXES					
Oil and Gas Production Taxes	92.563	86.895	94.080	92.471	4.92%
U.S. Mineral Royalties	29.304	27.417	30.527	29.164	1.55%
Coal Severance Tax	9.597	10.259	10.634	10.466	0.56%
Metalliferous Mines Tax	7.028	10.296	10.896	10.264	0.55%
Electrical Energy Tax	4.645	4.744	4.859	4.977	0.26%
Wholesale Energy Transactions Tax	3.813	3.686	3.757	3.829	0.20%
Total Natural Resource Taxes	**146.949**	**143.296**	**154.752**	**151.170**	**8.04%**
INTEREST EARNINGS					
Coal Trust Interest Earnings	31.106	30.431	29.550	28.839	1.53%
Treasury Cash Account Interest	18.631	29.292	17.914	17.857	0.95%
Total Interest Earnings	**49.737**	**59.723**	**47.464**	**46.696**	**2.48%**
LIQUOR TAXES					
Liquor Excise and License Taxes	12.709	13.484	14.307	15.181	0.81%
Liquor Profits	7.450	7.765	7.908	8.391	0.45%
Beer Tax	2.908	2.946	2.985	3.024	0.16%
Wine Tax	1.624	1.699	1.780	1.863	0.10%
Total Liquor Taxes	**24.691**	**25.894**	**26.980**	**28.459**	**1.51%**
TOBACCO TAXES					
Cigarette Tax	34.573	33.950	33.783	33.606	1.79%
Tobacco Products Tax	4.360	4.483	4.506	4.527	0.24%
Tobacco Settlement Funds	2.734	2.847	3.668	3.675	0.20%
Total Tobacco Taxes	**41.667**	**41.280**	**41.958**	**41.809**	**2.22%**
SALES TAXES					
Telecommunications Excise Tax	21.226	21.357	21.488	21.621	1.15%
Institutional Reimbursements	12.728	12.013	12.608	12.671	0.67%
Accommodations Tax	10.679	11.206	11.759	12.339	0.66%
Health Care Facility Utilization Fees	5.712	5.649	5.577	5.497	0.29%
Rental Car Sales Tax	2.755	2.901	3.054	3.216	0.17%
Total Sales Taxes	**53.099**	**53.125**	**54.487**	**55.344**	**2.95%**
OTHER TAXES AND REVENUES					
Lottery	9.110	8.925	8.933	8.975	0.48%
Highway Patrol Fines	4.316	4.348	4.381	4.413	0.23%
Investment Licenses and Permits	5.584	5.700	5.806	6.071	0.32%
Contractors' Gross Receipts Tax	4.275	3.956	3.647	3.354	0.18%
Driver's License Fee	3.828	3.733	3.975	3.855	0.21%
Rail Car Tax	1.667	1.572	1.542	1.520	0.08%
Estate Tax	1.773	0.159	0.148	0.090	0.00%
Other Revenue	31.867	29.899	29.259	29.356	1.56%
Total Other Taxes and Revenues	**62.422**	**58.293**	**57.690**	**57.633**	**3.07%**
TOTAL GENERAL FUND REVENUE	**1,708.155**	**1,779.122**	**1,806.799**	**1,879.239**	**100.00%**

LONG-TERM GENERAL FUND REVENUE GROWTH

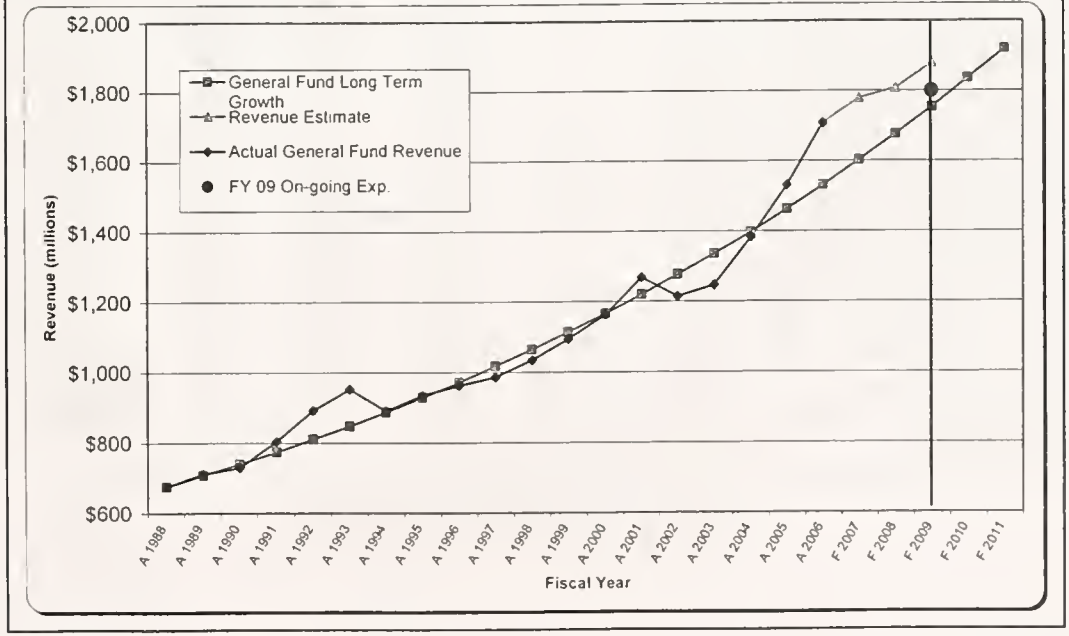
The Executive Budget is being constructed so on-going expenditures can be sustained for the long-term and therefore are within the parameters of the long-term general fund revenue growth trend. The information shown in Graph 1 and Table 2 illustrates the detail used to build the following "budget markers".

In the past, there has been an eight year cycle for revenue: seven years of increasing revenue and one year of declining revenue. When revenue declined, it almost always fell below the long-term trend. The last general fund revenue decline was 4.35% in FY 2002, and the previous general fund revenue decline was 6.42% in FY 1994. The analysis for looking at the "budget markers" uses the long-term revenue trend. The goal is to sustain programs within the current revenue structure in the 2011 biennium. When revenue is above the long-term trend, some of it is reserved to support services during the next general fund revenue decline.

Long-Term General Fund Revenue Growth

The long-term general fund revenue growth trend is about 4.64%. But within this long-term growth trend are large fluctuations; some years with very high growth and some years with revenue decline. Historically, Montana has seen eight-year cycles that feature revenue increases for seven years – with the more rapid growth in the fifth, sixth and seventh years – capped with a revenue drop in the eighth year. This trend is shown in Graph 1.

Graph 1
General Fund Revenue Growth



- From FY 1991 to FY 1993, the state had rapid growth and then revenue declined 6.42 % in FY 1994 and grew slowly for a number of years.

- From FY 1999 to FY 2001, high growth rates were followed by a 4.35 % drop in FY02 and a slow rebound in FY 2003.

- General fund revenue grew by more than 10% for FY 2004, FY 2005, and FY 2006. So far, FY 2007 revenue appears to be continuing that trend.

- However, history indicates the general fund cannot continue to grow at the FY 2004 through FY 2006 pace.

Graph 1 shows the general fund revenue estimates through FY 2009 continuing to grow under the current economic conditions.

Table 1 compares the actual and forecasted unaudited general fund revenue for 24 years, from FY 1988 through FY 2011. The FY 2007 to FY 2009 revenue estimate, based on today's economic conditions, is $433 million above the historical long-term growth rate.

At the end of FY 2006, the state's general fund had a balance of $406 million. If $100 million is considered an acceptable balance, the state had $306 million already available for one-time expenditures. Adding that extra FY 2006 general fund balance to revenue expected in the following three fiscal years, the 2007 Legislature would have $739 million in excess of the on-going revenue trend.

Table 1
General Fund (GF) Long-Term Revenue Growth
(Millions)

Fiscal Year	General Fund Revenue	Percent Change	4.64% Growth	Percent Change	Actual vs. Trend $ Diff.
A 1988	$677		$677		$0
A 1989	$712	5.21%	$708	4.64%	$4
A 1990	$730	2.58%	$741	4.64%	($11)
A 1991	$805	10.26%	$775	4.64%	$30
A 1992	$893	10.86%	$811	4.64%	$81
A 1993	$953	6.76%	$849	4.64%	$104
A 1994	$892	**-6.42%**	$888	4.64%	$3
A 1995	$935	4.88%	$930	4.64%	$6
A 1996	$963	2.98%	$973	4.64%	($10)
A 1997	$987	2.43%	$1,018	4.64%	($31)
A 1998	$1,034	4.85%	$1,065	4.64%	($31)
A 1999	$1,094	5.81%	$1,115	4.64%	($20)
A 2000	$1,164	6.32%	$1,166	4.64%	($3)
A 2001	$1,269	9.10%	$1,220	4.64%	$49
A 2002	$1,214	**-4.35%**	$1,277	4.64%	($63)
A 2003	$1,246	2.65%	$1,336	4.64%	($90)
A 2004	$1,382	10.85%	$1,398	4.64%	($17)
A 2005	$1,531	10.81%	$1,463	4.64%	$68
A 2006	$1,708	11.58%	$1,531	4.64%	$177
F 2007	**$1,779**	**4.15%**	$1,602	4.64%	**$177**
F 2008	**$1,807**	**1.56%**	$1,676	4.64%	**$130**
F 2009	**$1,879**	**4.01%**	$1,754	4.64%	**$125**

FY 07 - FY 09 Revenue Est. over Trend	=	**$433**
FY 2006 Fund Balance above $100 Million	=	$306
Total General Fund Avail over Long-TermTrend	=	**$739**

These funds will be available only if the current economic factors continue and if any revenue growth adjustment follows historic trends. The revenue correction usually occurs in the eighth year; but if it happens earlier, the $739 million excess revenue will not be realized and the overall projections will decrease.

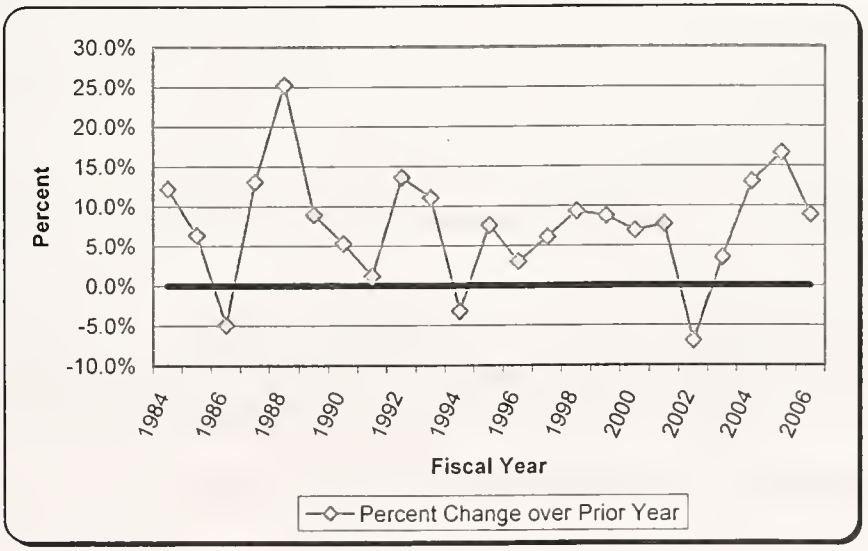
Volatility of Montana's General Fund Revenue

Montana's general fund revenue sources are very volatile. Sixty-three percent of the general fund is dependent upon three very dynamic revenue sources: individual income tax, corporate license tax, and natural resource taxes. As a group, other revenue sources change much more slowly and generally increase each year.

Individual Income Tax

Personal income tax, which accounts for slightly less than half of general fund revenue, can fluctuate significantly from year to year. In FY 2001, for example, the state received $556 million and the following year the amount dropped 7% to $517 million. Personal income tax revenue grew 3.5% in FY 2003, jumped 13% in FY 2004, 16% in FY 2005, 9% in FY 2006. Graph 2 shows the history of individual income tax growth yearly since FY 1984.

Graph 2
Individual Income Tax Revenue
Percent Change FY 1984 - FY 2006

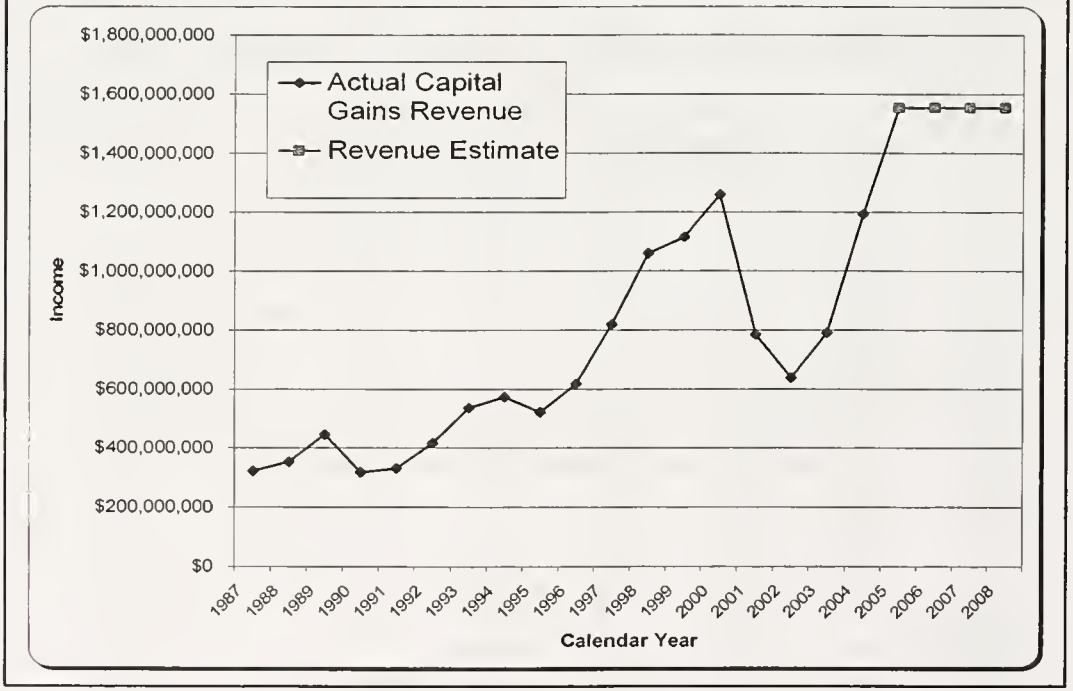


Individual income tax revenue is expected to continue growing in FY 2007 through FY 2009, but at a slower rate than what occurred from FY 2002 to FY 2005. Based on history, the growth should remain positive until FY 2010. However, the pace of the revenue growth has been more rapid and will need to continue to be positive through FY 2009 to have the $739 million available above the long-term revenue growth trend.

Individual Income Tax - Capital Gains

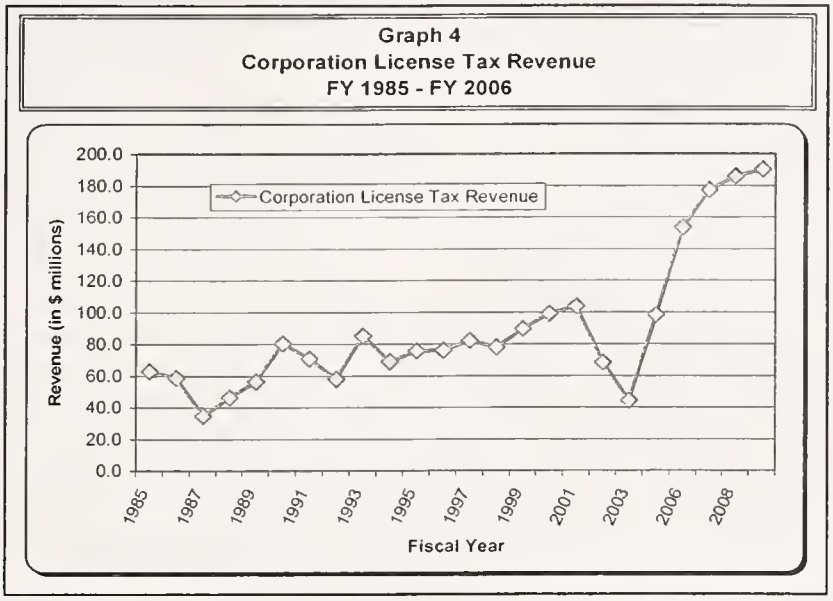
Since 1997, capital gains have been a driver in the fluctuations seen in state revenue. Capital gains have been much more volatile recently, as shown in the graph. Capital gains has a major impact on the amount of income taxes paid and, therefore, on overall revenue. It was a factor in the general fund revenue increase during FY 2006. However, based on recent history, this does not mean that the income tax on-going revenue base will be higher in future years. As Graph 2 shows, the projected capital gains income is projected to be sustained at the tax year 2005 level, but there is some risk that it will return to the long-term trend.

Graph 3
Capital Gains Income
Actual from 1987 to 2005 and Forecast from 2006 to 2009



Corporate License Tax

Corporate tax is very volatile. As shown in Graph 4, corporate tax has ranged from $104 million in FY 2001 down to $44 million just two years later, and rebounded to $154 million in FY 2006.



- In FY 2001, revenues reached a peak of $104 million, but then dropped by more than $35 million (34%) in a single year.

- In FY 2003, corporate tax declined another 35%.

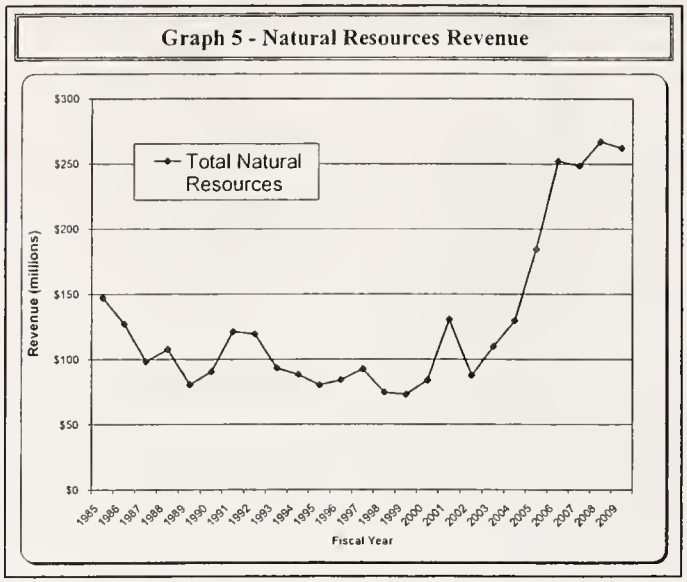
- In FY 2004, revenues jumped by 53% and increased once again in FY 2005 by 45%.

- This roller-coaster pattern is not unique to that four-year period. In a one-year span, FY 1986 to FY 1987, corporate tax collections plummeted 41% after decreasing just 6% the year before.

As seen in Graph 4, revenue estimates reflect continuing increases in corporate profits as projected in Global Insight's national forecast. Should the Global Insight projection of national corporate profits be too optimistic, Montana corporate profits will be overstated. It is very feasible for corporate profits to decline by half from one fiscal year to the next.

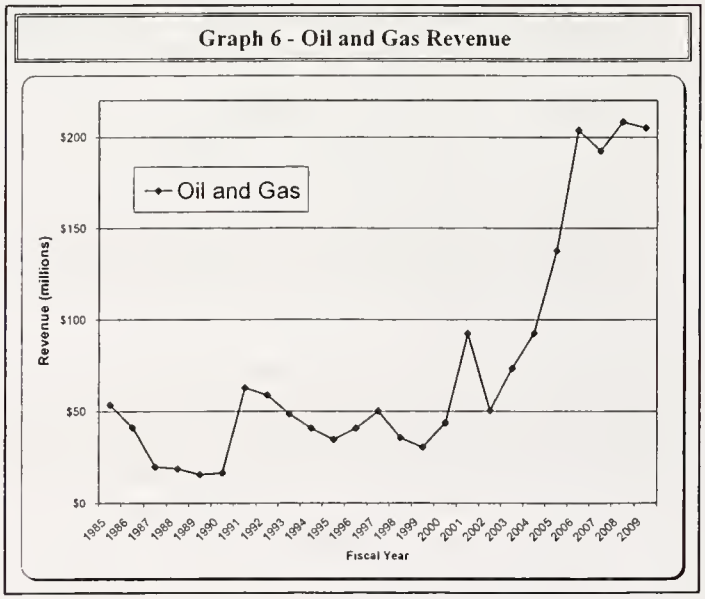
Natural Resource Revenue

Natural resource revenue allocations change frequently. The data shown is oil and natural gas production taxes, total coal severance tax, and metalliferous mine taxes, reported by the Legislative Fiscal Division for FY 1985 to FY 2006 and the budget office revenue estimates for FY 2007 to FY 2009. As shown in Graph 5, revenue from natural resources increased very rapidly after FY 2002. Except for a large increase in FY 2001, natural resource tax revenue had gradually declined prior to FY 2002.

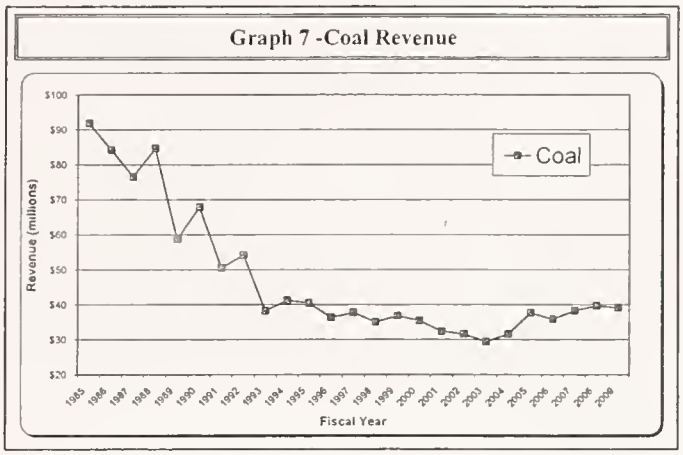


Examining the three natural resource taxes separately, revenue from coal production is decreasing while revenue from oil and natural gas production and metalliferous mines is increasing dramatically.

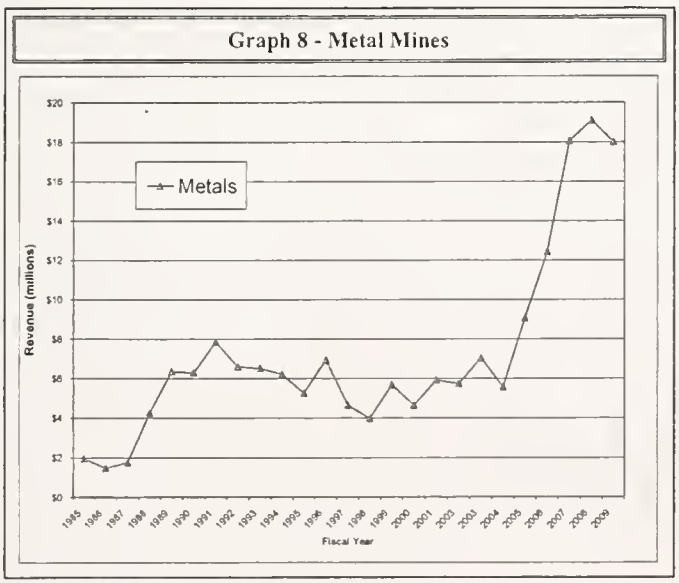
Graph 5 shows the oil and natural gas total tax revenue since FY 1985. During this time, taxes were reduced and that is reflected in lower tax revenue. But oil and natural gas production tax revenue has seen rapid increases since FY 2002. The graph shows that in the past four years, the revenue increased from $50 million to $204 million. The governor's budget office revenue estimates show a slight decline in FY 2007, due primarily to declining natural gas prices just in FY 2007. With a 300% growth in four years, there is considerable risk of a rapid revenue decline. The extent of such a reversal will depend mostly on the price of oil and natural gas.



Graph 7 shows a decline in coal tax revenue from $92 million in FY 1985 to $29 million in FY 2003, most the decline came from the reduction of the tax from 30% to 15% in three stages beginning in 1988. From FY 1994 to FY 2003 coal taxes went gradually down from $41 million to $29 million. Since then they have gradually increased. The state saw growth in FY 2004 and FY 2005 with coal tax revenue flattening in FY 2006. Notwithstanding the possibility of increased coal taxes resulting from the success of the Governor's coal development initiatives, the long lead time for such developments to come on line leads the budget office to estimate that coal tax revenue will remain relatively stable over the near term.



Metalliferous mine taxes, as shown in Graph 8, increased from $2 million in FY 1985 to around $6 million for the period FY 1989 to FY 2004. In FY 2005, metal mines revenue increased 65% or $3.5 million. That was followed by another jump of $3.4 million, or 37%. Based on a mine survey, the budget office projects this revenue to increase another $6 million, or 50%, in FY 2007, before leveling off for the next two years.



In summary, the natural resource estimates for FY 2007 to FY 2009 show considerable optimism in the mining companies' production outlook, Global Insight's price estimates, and the futures market. These revenue estimates are built on the economics of today. In Montana as the graphs show, natural resource taxes are an all-time high and they can decline rapidly.

INDIVIDUAL INCOME TAX

Revenue Description

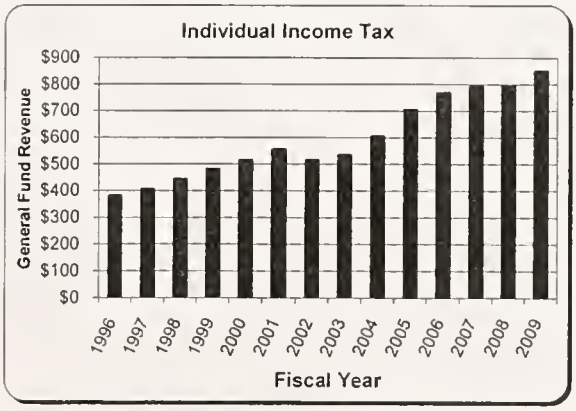
Title 15, Chapter 30, MCA, imposes a graduated individual income tax on gross income less exemptions and deductions. Taxpayers' Montana adjusted gross income is based on their federal adjusted gross income, but may be higher or lower because some types of income are taxed differently by the state and federal government. Itemized deductions for federal and state income tax are similar, except state income tax may be deducted in calculating federal taxable income, while federal income tax may be deducted in calculating state taxable income. Through tax year 2004, marginal tax rates ranged from 2% to 11% depending on taxable income. Beginning with tax year 2005, marginal rates ranged from 1% to 6.9%. Montana also allows a number of credits that may reduce taxpayers' liabilities. With the exception of FY 2005, all revenue from individual income tax is allocated to the general fund. About $1.1 million of income tax revenue was allocated in FY 2005 to pay for the Department of Revenue's new data processing system.

Historical and Projected Revenue

Individual income tax is the single largest source of revenue to the general fund. In FY 2006, individual income tax revenue was 45% of total general fund revenue. Table 1 shows actual individual income tax revenue for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Individual Income Tax Revenue
($ millions)

Fiscal Year	Collections	General Fund	Percent Change
A 1996	$383.092	$ 383.092	3.01%
A 1997	$406.276	$ 406.276	6.05%
A 1998	$444.191	$ 444.191	9.33%
A 1999	$483.032	$ 483.032	8.74%
A 2000	$516.262	$ 516.262	6.88%
A 2001	$556.015	$ 556.015	7.70%
A 2002	$517.568	$ 517.568	-6.91%
A 2003	$535.831	$ 535.831	3.53%
A 2004	$605.582	$ 605.348	12.97%
A 2005	$707.327	$ 706.219	16.66%
A 2006	$768.912	$ 768.912	8.88%
F 2007	**$793.826**	**$ 793.826**	**3.24%**
F 2008	**$797.002**	**$ 797.002**	**0.40%**
F 2009	**$851.073**	**$ 851.073**	**6.78%**



Income tax revenue grew fairly steadily from FY 1996 to FY 2001. Revenue grew faster than normal in the second half of the 1990s as the national economy went through a prolonged expansion and the rapidly rising stock market led to large increases in capital gains income. Revenue dropped by almost 7% in FY 2002 as the national economy went through a recession and the stock market bubble burst. Revenue grew 3.5% in FY 2003 and 13% in FY 2004 as the national economy recovered and taxpayers realized the losses they had incurred in the stock market. Even with the rate reductions in SB 407 (2003 Session), revenue grew by 16.7% in FY 2005 and 8.9% in FY 2006 as the economy remained strong. Revenue is projected to increase by 3.24% in FY 2007. Revenue in FY 2008 is forecast to only grow by 0.4% as the capital gains tax credit effectively reduces the tax rate on capital gains from 5.9% to 4.9%. FY 2009 revenue is forecast to grow by 6.78%.

Background

Income tax collections through FY 2009 are affected by the projected growth of income, deductions, credits, changes to tax rates enacted in SB 407 (2003 Session), and changes in federal legislation.

SB 407 – New Rate Table

SB 407, which went into effect in tax year 2005, reduced income tax rates, provided a credit for part of capital gains income, and limited the itemized deduction for federal income taxes. Table 2 shows the rates for CY 2004, before SB 407, and the rates for CY 2005, the first year SB 407 was in effect. Under SB 407 there are fewer rates and lower minimum and maximum rates.

Table 2
Income Tax Rate Tables Before and After SB 407

Projected 2004 Rate Table (before SB407)	
Taxable Income	Tax
$2,300 or less	2% of taxable income
$2,301 to $4,600	3% minus $23
$4,601 to $9,100	4% minus $69
$9,101 to $13,700	5% minus $160
$13,701 to $18,200	6% minus $297
$18,201 to $22,800	7% minus $479
$22,801 to $31,900	8% minus $707
$31,901 to $45,500	9% minus $1,026
$45,501 to $79,700	10% minus $1,481
over $79,700	11% minus $2,278

2005 Rate Table (after SB407)	
Taxable Income	Tax
$2,300 or less	1% of taxable income
$2,301 to $4,100	2% minus $23
$4,101 to $6,200	3% minus $64
$6,201 to $8,400	4% minus $126
$8,401 to $10,800	5% minus $210
$10,301 to $13,900	6% minus $318
over $13,901	6.9% minus $443

SB 407 – Limit on Deduction for Federal Income Tax

SB 407 limits the itemized deduction for federal taxes to $10,000 for married couples filing jointly and $5,000 for other filers. This has no effect on taxpayers who take the standard deduction or taxpayers who itemize deductions, but pay less than $5,000 in federal income tax ($10,000 if filing jointly). For taxpayers who pay more than $5,000 in federal income tax ($10,000 if filing jointly), the limited deduction for federal income tax means that their taxable income increases and so, therefore, does their tax. Taxpayers who claim an itemized deduction for federal taxes paid during a year reduce their state income tax liability. If it turns out that they overpaid federal taxes that year and receive a refund in the next year, then that refund must be reported as income for state income tax in the next year. This results in the taxpayer's state taxable income being reduced by the net amount paid to the federal government each year, i.e., taxes paid less refunds. This is referred to as the "tax benefit rule" – a federal income tax refund must be counted as income if the taxpayer received the benefit of deducting it the previous year.

Beginning in CY 2005, any federal income tax paid over the $5,000 cap ($10,000 for joint filers) cannot be claimed as an itemized deduction and so does not reduce state income tax. Therefore, there is no state tax benefit from federal taxes paid over the cap. If the taxpayer receives a refund the next year, the refund is counted as state taxable income if it reduces the net amount paid (federal tax paid minus the refund) to below the cap. To illustrate, a married taxpayer filing jointly who paid $11,000 in federal tax in CY 2005 can only claim $10,000 as part of his itemized deductions. If the taxpayer receives a refund of $100 in CY 2006 he would not have to report it as income (for state taxation) because it is less than the $1,000 he could not claim as an itemized deduction. A married taxpayer filing jointly who paid $11,000 in federal tax and received a refund of $1,100 would have to report $100 as income for state taxation.

The tax benefit rule reduces taxable income and state tax liability for some taxpayers with federal income tax over the cap, partially offsetting the additional tax paid because of the cap.

The net effect of the cap on federal deductibility is to increase tax liability of higher income taxpayers, but by less than the new rate table reduces it.

SB 407 – Federal Alternative Minimum Tax

Recent federal legislation has raised the income level at which alternative minimum tax applies, but only through CY 2006. Therefore, under current law, the number of taxpayers paying federal alternative minimum tax will increase significantly in CY 2007, and these taxpayers will pay more federal income tax. Without SB 407, this would reduce their state income tax liability. However, many of these taxpayers are near or over the cap on federal deductibility, and the increase in federal income tax payments will have a very small effect on state tax liability.

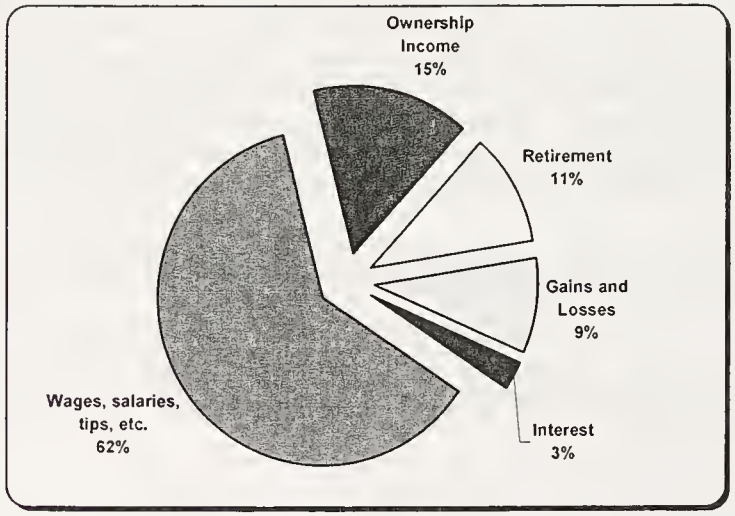
SB 407 – Capital Gains Credit

In CY 2005 and CY 2006, taxpayers are allowed to claim a tax credit equal to 1% of their capital gains income on their state income tax forms. Beginning in CY 2007, the credit will be 2% of capital gains income. This is equivalent to taxing capital gains at a lower rate than other income.

Income by Category

Taxpayers can report income on eleven lines on the tax return. These income categories are forecast separately. These eleven income items can be organized into five general income categories for ease of understanding – wage, salary and tip income, ownership income, taxable retirement income, gains and losses, and interest. Graph 1 shows these categories and their relative proportion of total taxable income reported by full-time residents.

Graph 1
Personal Income Reported on State Returns by Full-time Residents for Tax Year 2005



As can be seen from Graph 1, wages, salaries and tip income comprise the largest share of total reported income by full-time residents – almost three-fifths of income. Next is ownership income at 15%, then retirement income subject to taxation at 11%, followed by gains and losses at 9% of taxable income. Interest income comprises the smallest share of reported income by full-time residents at 3%.

Table 3 provides more detail on each income category by showing the amount of income reported for CY 2005 by full-year residents and the percent of total reported income that category represents for CY 2005. The last column in Table 3 also provides the average percent of total reported income for each category for the prior 10 years.

Table 3
Calendar Year Income Reported by Full-Year Residents
($ millions)

Type of Income	CY 2005 Income	% of CY 2005 Income	% of CY 94-CY 04 Income
Labor Income			
Wages, salaries, tips, etc.	$10,840.674	61.75%	65.22%
Ownership Income			
Rents, royalties, partnerships, etc.	$1,704.629	9.71%	6.70%
Net business income	$749.588	4.27%	4.78%
Dividend income	$463.027	2.64%	2.48%
Net farm income	-$125.935	-0.72%	-0.88%
Other income	-$70.993	-0.40%	-0.25%
Retirement			
Taxable portion of Soc. Sec.	$359.184	2.05%	1.72%
Taxable Pensions, IRAs	$1,524.803	8.68%	8.55%
Gains and Losses			
Capital gain or (loss)	$1,554.054	8.85%	6.83%
Supplemental gains or (losses)	$77.631	0.44%	0.37%
Interest			
Interest income	$480.088	2.73%	4.48%
TOTAL INCOME	**$17,556.750**	**100.00%**	**100.00%**

Wages, salaries, tips, and other labor income reported by full-time residents was $10,840.674 million in CY 2005, or about 62% of income reported by full-time residents. Over the period from 1994 through 2004 it accounted for about two-thirds of income.

Ownership income is reported on five tax return lines.

- Rents, royalties, and partnership income is income from ownership of tangible or intangible property, from a partnership in a business, or from passive participation in a business. It averaged about 9.71% of income in FY 2005.

- Net business income is income that individuals receive from their direct ownership of a business. It averages about 4.27% of income.

- Dividends are income that individuals receive from owning shares of an incorporated business. Dividends averaged about 2.64% of income in CY 2005.

- Net farm income is the net of income and losses from unincorporated agricultural operations and is negative most years.

- Other income is income that does not fit one of the other categories. Total other income generally is negative, but small relative to total income.

Retirement income has grown faster than other types of income and is expected to continue to do so. Retirement income is reported on two lines.

- The taxable portion of Social Security was 2.05% of reported income in CY 2005, up from the average of 1.72% during CY 1994 through CY 2004.

- Taxable retirement income from pensions, IRA distributions, and other sources except Social Security was 8.68% of income reported by full-time residents, up from an average of 8.55% of income during the period from CY 1994 through CY 2004.

Gains and losses from the sale of assets are reported on two lines. Most are reported as capital gains. A small amount of gains or losses on the sale of business assets are reported as supplemental gains. Together, capital gains and supplemental gains averaged a little more than 7% of revenue over the last ten years. In CY 2005 total gains and losses were over 9% of total reported income.

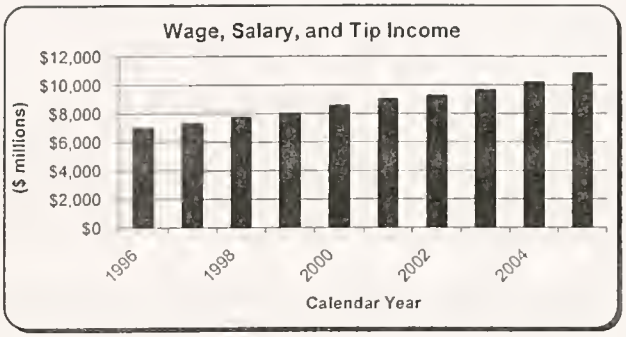
Interest averaged about 2.73% of income reported by full-time residents in FY 2005, down from the average of 4.48% of reported income for CY 1994 through CY 2004.

Wages and Salaries

Table 4 provides historical data on wage and salary income. Total wage and salary income reported by full-year residents grew by 6.18% in CY 2005, the third highest growth rate for the period CY 1996 through CY 2005.

Table 4
Wage, Salary and Tip Income Reported by Full-Year Residents
($ millions)

Calendar Year	Wage, Salary and Tip Income	Percent Change
A 1996	$6,959.345	
A 1997	$7,258.599	4.30%
A 1998	$7,730.368	6.50%
A 1999	$8,026.893	3.84%
A 2000	$8,569.388	6.76%
A 2001	$9,013.441	5.18%
A 2002	$9,265.904	2.80%
A 2003	$9,649.687	4.14%
A 2004	$10,209.869	5.81%
A 2005	$10,840.674	6.18%



Income growth results from increasing employment and average wages and salaries. Table 5 illustrates estimated employment growth as developed by Global Insight. The table shows the 16 employment categories, in decreasing order. The second column shows the percent of state employment in each sector in CY 2005. The third column shows average growth rate of employment in each sector from CY 1996 - CY 2005. The next four columns show forecast growth rates for CY 2006 through CY 2009. The final column shows the average forecast growth rates for CY 2007 through CY 2009.

Table 5
Employment Growth - Calendar Year

Industry	2005 % of Employment	Growth Rate: Average 1996-2005	2006	2007	2008	2009	Average 2007 - 2009
State & Local Gov't (inc. Schools)	16.61%	1.1%	1.4%	1.3%	1.1%	1.2%	1.2%
Educational and Health Services	12.84%	2.1%	2.2%	1.8%	1.9%	1.7%	1.8%
Retail Trade	12.61%	0.6%	1.6%	1.5%	1.4%	1.0%	1.3%
Leisure and Hospitality	12.54%	1.2%	1.5%	1.5%	1.4%	1.0%	1.3%
Professional & Business Services	7.90%	2.7%	3.6%	3.7%	3.6%	3.4%	3.6%
Construction	6.24%	3.7%	8.3%	2.5%	1.0%	1.2%	1.6%
Financial Activities	4.87%	2.1%	2.1%	0.9%	1.2%	1.2%	1.1%
Manufacturing	4.43%	-1.0%	-0.3%	-0.5%	-0.3%	0.5%	-0.1%
Other Services	3.82%	1.6%	0.0%	1.3%	0.7%	0.5%	0.8%
Wholesale Trade	3.72%	0.6%	1.2%	0.7%	0.3%	0.3%	0.4%
Transport, Warehousing, Utilities	3.61%	-0.3%	2.7%	1.4%	1.1%	1.0%	1.2%
Federal Government	3.07%	0.4%	-1.0%	-0.2%	0.1%	0.4%	0.1%
Agriculture, Forestry, and Fishing	2.25%	0.2%	1.4%	1.1%	1.1%	1.0%	1.1%
Military	1.93%	-0.5%	-0.7%	0.2%	0.9%	1.0%	0.7%
Natural Resources and Mining	1.78%	1.6%	5.3%	5.6%	3.1%	-1.1%	2.5%
Information	1.77%	1.1%	-0.5%	1.3%	0.3%	1.3%	1.0%
Total Non-farm Employment Growth		**2.0%**	**2.0%**	**1.6%**	**1.4%**	**1.2%**	**1.4%**

Source Global Insight Summer 2006 Montana

The fastest growing industries in CY 2007 through CY 2009 are projected to be professional and business services, natural resources and mining, and educational and health services. Manufacturing is the only industry projected to have a net job loss; however, the decline is small. Employment has grown faster than population in Montana as the fraction of the population doing paid work increased and the fraction of the population holding more than one job increased.

Wage and salary income is estimated in two steps. First, Global Insight's forecasts of Montana employment and average annual wages for major sectors of the state economy are used to construct a forecast of total wage and salary income. Second, total wage and salary income is adjusted to estimate wages and salaries reported on full-year residents' income tax returns.

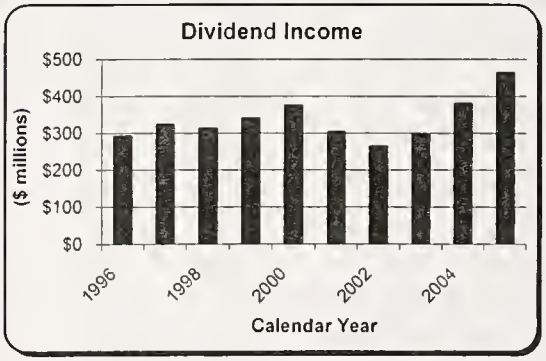
Total wage and salary income is forecast to grow at an average annual rate of 9.5% in CY 2006, by 4.91% in CY 2007, by 4.00% in CY 2008, and 4.31% in CY 2009. In CY 2004 and CY 2005 total wage and salary income grew by 5.81% and 6.18% respectively. By comparison total wage and salary income grew by an annual average of 5.25% during the period from CY 1991 through CY 2003. The individual base forecast growth rates are summarized in Table 14.

Ownership Income

Table 6 shows dividends reported on full-year residents' income tax returns for CY 1996 through CY 2005.

Table 6
Dividend Income Reported by Full-Year Residents
($ millions)

Calendar Year	Dividend Income	Percent Change
A 1996	$291.415	
A 1997	$323.151	10.89%
A 1998	$312.283	-3.36%
A 1999	$340.081	8.90%
A 2000	$374.794	10.21%
A 2001	$302.464	-19.30%
A 2002	$264.875	-12.43%
A 2003	$297.423	12.29%
A 2004	$379.386	27.56%
A 2005	$463.027	22.05%



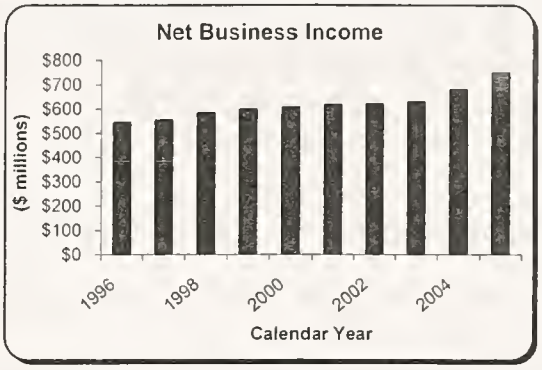
Montana dividends and net business income are highly correlated with their national equivalents. Growth of Montana dividend income is forecast to be proportional to growth of national dividend income. Dividends fell by 19% in CY 2001 and 12% in CY

2002 because of the national recession. In CY 2003, dividend income recovered almost to its CY 2001 level. Dividend income increased by nearly 28% in CY 2004 and by 22% in CY 2005. Income from dividends is forecast to continue growing, but at a reduced rate during CY 2007 through CY 2009. The base forecast growth rates are summarized in Table 14.

Net business income, shown in Table 7, is less volatile than dividends. The growth rate of Montana net business income is forecast based on the previous year's growth rate and the growth rate of national proprietors' income. Growth of net business income in Montana slowed in CY 2000 through CY 2002 as the national economy went into a recession. It remained at a relatively low rate of 1.47% in CY 2003. In CY 2004 it grew by 8.11% and in CY 2005 it grew by 10.11%. The base forecast growth rates are summarized in Table 14.

Table 7
Net Business Income Reported by Full-Year Residents
($ millions)

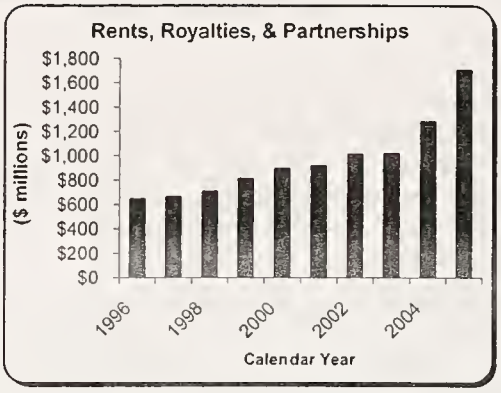
Calendar Year	Net Business Income	Percent Change
A 1996	$544.993	
A 1997	$554.537	1.75%
A 1998	$584.178	5.35%
A 1999	$599.189	2.57%
A 2000	$606.597	1.24%
A 2001	$617.943	1.87%
A 2002	$620.572	0.43%
A 2003	$629.701	1.47%
A 2004	$680.790	8.11%
A 2005	$749.588	10.11%



Rents, royalty, and partnership income is shown in Table 8. The growth rate of rents, royalties, and partnership income shows a strong relationship with national proprietors' income. In CY 2004 it grew nearly 26%. In CY 2005 it grew by 32.83%. It is forecast to continue to grow, but at a reduced rate from CY 2006 through CY 2009. Mineral royalties are generally reported in this category, and higher minerals, oil, and natural gas prices have contributed to this growth. The base forecast growth rates are summarized in Table 14.

Table 8
Rents, Royalties and Partnership Income Reported by Full-Year Residents ($ millions)

Calendar Year	Rents, Royalties and Partnership Income	Percent Change
A 1996	$645.596	
A 1997	$664.947	3.00%
A 1998	$709.340	6.68%
A 1999	$813.250	14.65%
A 2000	$894.050	9.94%
A 2001	$917.394	2.61%
A 2002	$1,014.593	10.60%
A 2003	$1,019.724	0.51%
A 2004	$1,283.271	25.84%
A 2005	$1,704.629	32.83%



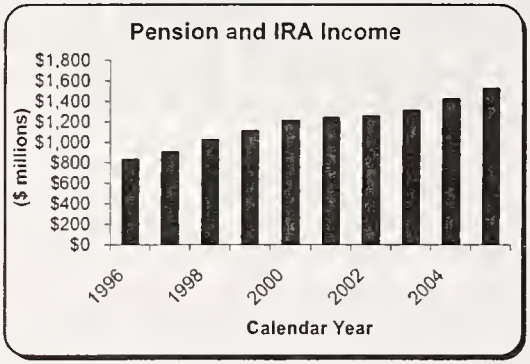
Net farm income has been negative in recent years and is projected to stay negative. Net farm income is forecast using forecasts of beef and wheat prices from the U.S. Department of Agriculture and a time trend. The other income line is a catchall for income that does not fit on the other lines. Other income is small and is forecast to grow at rate based on historic trends

Retirement Income

Table 9 shows actual taxable pension and IRA distributions for CY 1996 through CY 2005.

Table 9
Pension and IRA Income Reported by Full-Year Residents ($ millions)

Calendar Year	Pension & IRA Income	Percent Change
A 1996	$831.706	
A 1997	$902.377	8.50%
A 1998	$1,021.092	13.16%
A 1999	$1,107.481	8.46%
A 2000	$1,206.261	8.92%
A 2001	$1,233.690	2.27%
A 2002	$1,250.389	1.35%
A 2003	$1,307.739	4.59%
A 2004	$1,417.524	8.40%
A 2005	$1,524.803	7.57%

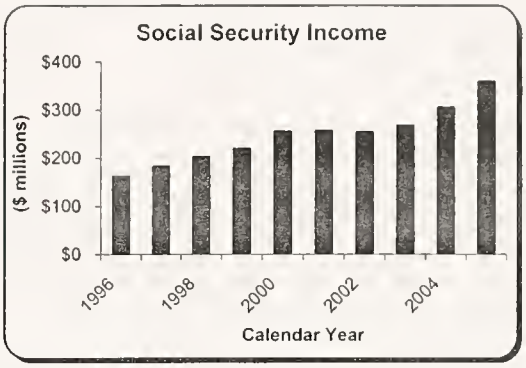


Taxable pensions and IRA distributions have been found to have a good relationship with prior years' S&P 500 stock price index and last year's U.S. gross domestic product and recent differences between actual and predicted pension income.

Table 10 shows historical data for taxable Social Security income. Taxable Social Security income is forecast based on inflation and Montana population age 65 and older. Table 14 shows the forecast growth rates for taxable retirement income and taxable Social Security.

Table 10
Taxable Social Security Income Reported by Full-Year Residents
($ millions)

Calendar Year	Social Security Income	Percent Change
A 1996	$162.409	
A 1997	$182.846	12.58%
A 1998	$202.846	10.94%
A 1999	$219.828	8.37%
A 2000	$255.297	-57.39%
A 2001	$257.153	0.73%
A 2002	$254.249	-1.13%
A 2003	$267.287	5.13%
A 2004	$305.542	14.31%
A 2005	$359.184	17.56%



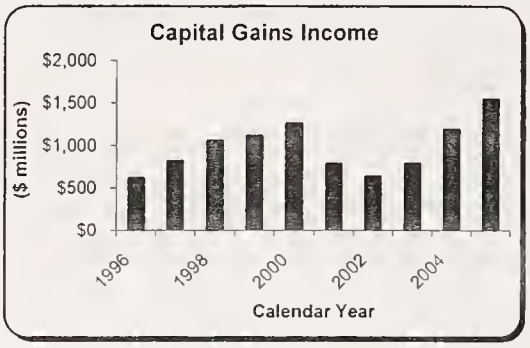
Capital Gains and Supplemental Gains

Capital gains and supplemental gains are gains or losses from the sale of assets. Gains or losses on the sale of property used in the owner's trade or business, mineral rights, and business inventories generally are reported as supplemental gains. Gains or losses on the sale of other assets generally are reported as capital gains.

Table 11 shows capital gains, in millions of dollars and percent change from year to year, from CY 1996 through CY 2005. As can be seen in Table 11, there is considerable variability in capital gains income with year-to-year changes (up or down) over this period.

Table 11
Capital Gains Income Reported by Full-Year Residents
($ millions)

Calendar Year	Capital Gains	Percent Change
A 1996	$616.453	
A 1997	$818.544	32.78%
A 1998	$1,060.174	29.52%
A 1999	$1,115.780	5.25%
A 2000	$1,259.720	12.90%
A 2001	$785.759	-37.62%
A 2002	$637.444	-18.88%
A 2003	$790.913	24.08%
A 2004	$1,193.177	50.86%
A 2005	$1,554.054	30.25%

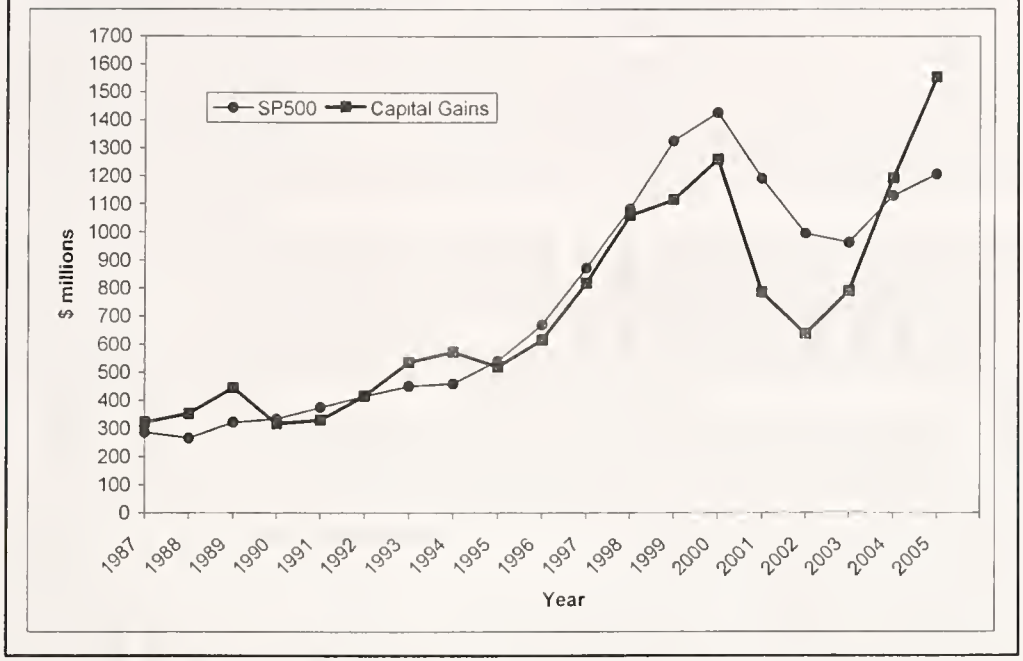


Capital gains followed a general upward trend from CY 1996 through CY 2000. During this period, capital gains doubled, growing from 4.2% of income to 9.2% of income. This coincided with a prolonged period of economic expansion that culminated in the stock market bubble of the late 1990s. The expansion ended and the stock market crashed in CY 2000, and capital gains fell by almost half from CY 2000 to CY 2002. In CY 2003, CY 2004, and CY 2005 capital gains grew, with increases of 24%, 51%, and 30%, respectively.

Capital gains or losses result when the price of an asset rises or falls between the time it is bought and the time it is sold. Statistical models have been estimated relating capital gains to changes in stock prices. Only a portion of capital gains are from sales of stocks, but stocks are the only assets for which reliable price data are available, and most asset values are affected similarly by general economic conditions and investor optimism or pessimism. Thus, stock prices serve as a general indicator of the value of assets.

Graph 2 shows actual capital gains in CY 1987 through CY 2005 and the actual average quarterly S&P 500 in CY 1987 through CY 2005.

Graph 2
Capital Gains



Through CY 1995, stock prices rose steadily. Capital gains varied from year to year, but had about the same average growth as stock prices. From CY 1996 through CY 1999, stock prices rose rapidly. Capital gains rose rapidly in CY 1997 and CY 1998 as many assets were sold for significantly more than was paid for them. Capital gains growth slowed in CY 1999, before the stock market peaked. Although asset prices continued to rise, an increasing percentage of assets were purchased after prices had started rising rapidly. Stock prices peaked in CY 2000. They fell rapidly in CY 2001 and CY 2002 and continued to fall, but not as rapidly, in CY 2003. Capital gains fell even more rapidly than stock prices in CY 2001. Not only were selling prices lower, some of the assets being sold were bought during the peak years and were being sold for a loss. Capital gains fell more slowly than stock prices in CY 2002. They recovered somewhat in CY 2003 as the stock market began recovering and investors began selling some of the assets they bought during the trough in CY 2001 and CY 2002. Capital gains increased by 24%, but were still well below the long-term trend.

Stock prices rose sharply in CY 2004 and capital gains jumped by 51%. Capital gains increased by 30% in CY 2005. In addition to higher asset prices, capital gains in 2003, 2004, and 2005 were also affected by changes in federal law.

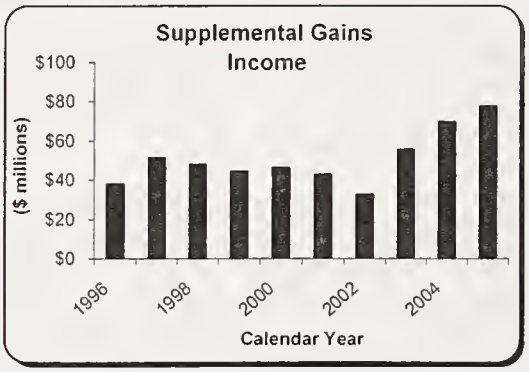
The Jobs and Growth Tax Relief Reconciliation Act of 2003 included changes affecting long-term capital gains from sales on or after May 6, 2003, reducing the rates on many, but not all, types of gains from asset sales. The legislation included language which

sunset these lower capital gains rates in 2008 unless extended by Congress. In May 2006 Congress passed legislation extending the lower capital gains rates through 2010. In the past people with assets that have appreciated have responded to changes in capital gains rates by selling assets to realize gains during periods when rates are lower. This is almost certain to have happened again, and part of the increase in capital gains in 2003 through 2005 reflects a one-time turnover of assets following the rate cuts in order to realize the gains. In light of the extension of the lower rates in the 2006 federal legislation, and the inherent volatility exhibited by this revenue source, capital gains are forecast to remain constant through the period CY 2006 through CY 2009.

Supplemental gains follow similar cycles as capital gains with some differences. Table 12 shows the history for this revenue source for CY 1996 through CY 2005. The growth rates used to estimate supplemental gains are summarized in Table 14.

Table 12
Supplemental Gains Income Reported by Full-Year Residents
($ millions)

Calendar Year	Supplemental Gains Income	Percent Change
A 1996	$38.126	
A 1997	$51.468	34.99%
A 1998	$47.856	-7.02%
A 1999	$44.391	-7.24%
A 2000	$46.175	4.02%
A 2001	$42.906	-7.08%
A 2002	$32.565	-24.10%
A 2003	$55.547	70.57%
A 2004	$69.724	25.52%
A 2005	$77.631	11.34%



Interest Income

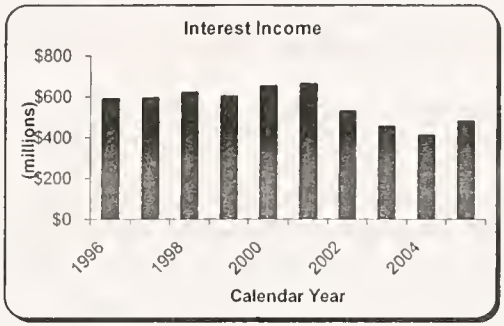
Interest earnings depend on taxpayers' savings and interest rates. Statistical models were used to find relationships among interest income, various short- and long-term interest rates, and indicators of economic activity. The model that fits the data best predicts interest earnings using a time trend to capture the growth in taxpayers' savings, the current and last year's average rates on three-month certificates of deposit, and differences between recent interest income and predicted values.

Table 13 shows actual interest income for CY 1996 through CY 2005. Interest income decreased by 20% in CY 2002 and 14% in CY 2003 as interest rates fell to historically low rates. Interest income continued to decline in CY 2004, as interest rates remained relatively low. In 2005 interest income rebounded as interest rates began to increase.

Table 14 shows that interest income is forecast to increase in the period from CY 2006 through CY 2009, in line with projected interest rate increases.

Table 13
Interest Income Reported by Full-Year Residents
($ millions)

Calendar Year	Interest Income	Percent Change
A 1996	$589.569	
A 1997	$595.108	0.94%
A 1998	$621.815	4.49%
A 1999	$602.599	-3.09%
A 2000	$652.744	8.32%
A 2001	$662.617	1.51%
A 2002	$528.959	-20.17%
A 2003	$453.025	-14.36%
A 2004	$411.889	-9.08%
A 2005	$480.088	16.56%



Adjustments to Income

A taxpayer's federal adjusted gross income is the sum of the eleven income categories just discussed, minus adjustments to income, which include unreimbursed expenses, IRA contributions, and alimony paid. Montana adjusted gross income is federal adjusted gross income plus income the state taxes but the federal government does not tax, minus income the federal government taxes but the state does not. Table 14 shows actual growth rates of adjustments to income and income that Montana taxes but the federal government exempts in CY 2001 through CY 2005 and forecasts for CY 2006 through CY 2009.

- Adjustments to income are forecast based on the most recent data.
- Income taxable in Montana that is not taxed by the federal government is reported in three categories: interest on municipal bonds from other states, federal income tax refunds, and all other additions.
- Interest on municipal bonds is forecast using the current and last year's average interest rate on municipal bonds, a time trend to account for growth in bond holdings over time, and differences between recent income and predicted values.
- Federal income tax refunds are forecast using an average growth rate from 1996 through 2005. Beginning in CY 2005, the simulation program reduces the amount of each federal refund that is included in income by the amount that federal taxes paid exceed the cap on deductibility of federal taxes in SB 407.

- When taxpayers report income in the all other category, it usually is because they have elected to have income taxed differently at the state and federal level. The other additions to income varies from year to year but shows no trend. It is projected to remain at the CY 2005 level.

Table 14 shows actual growth rates of income that Montana exempts but the federal government taxes in CY 2001 through CY 2005 and forecasts for CY 2006 through CY 2009. Income that the federal government taxes but Montana does not is reported in ten categories, but only nine are shown in Table 14.

- The farm risk management account and the health care professional loan payment exclusion are both relatively new items and so have little history on which to estimate future growth or levels. The farm risk management account exemption has shown wide swings in dollar amounts since it was created. The farm risk management account is projected to remain constant.

- The interest exclusion for the elderly is calculated for each return in the simulation program, so no overall growth rate is forecast.

- The exempt pension income is calculated for each return in the simulation program, so no growth rate is forecast.

- The interest on savings bonds forecast is based on interest rate forecasts provided by Global Insight.

- Unemployment compensation varies over the course of business cycles but does not show a trend. The forecast is for unemployment compensation to be constant at the CY 2005 level, reflecting the expectation that employment will remain strong.

- Medical savings account contributions are forecast to increase each year by the average dollar change of the CY 1997 through CY 2005 increases.

- Family education savings accounts are forecast to increase by the average dollar increase for CY 1996 through CY 2005.

- First-time homebuyers account contributions and interest has grown rapidly since this exemption was introduced. It is forecast to grow at the average growth rate from CY 1999 through CY 2005.

- The health care profession loan payment exclusion has three years of history. The growth rate is based on the average growth rate since it was created.

- Other reductions are forecast to grow at the average annual growth rates.

Deductions

Montana taxable income is Montana adjusted gross income less deductions. Many taxpayers claim the standard deduction. Taxpayers who itemize deductions may claim deductions in the following categories.

1. Medical insurance premium deductions are forecast to grow at the average rate of growth in recent years.
2. Medical expense deductions are forecast to grow at the average rate of growth in recent years.
3. Deductions for long-term care insurance are forecast to grow by the average amount of growth in recent years.
4. Deductions for federal income tax payments are calculated in the simulation program. This calculation uses growth rates for back year taxes and payments made with returns. Beginning in CY 2005, the calculation incorporates the SB 407 limits on this deduction.
5. Deductions for real estate taxes are based on the average growth rate from CY 1996 through CY 2005.
6. Deductions for vehicle taxes are based on the average growth rate from CY 1996 through CY 2005.
7. Mortgage interest deductions are forecast using the average growth rate from CY 1996 through CY 2005.
8. Deductions for investment interest are forecast using the interest rate on three-month certificates of deposit.
9. Deductions for charitable contributions are forecast using a trend and the forecast population, 19 years and older, in Montana.
10. Deductions for child and dependent care expenses are forecast using the average growth rate from CY 1996 through CY 2005.
11. Deductions for casualty and theft losses are forecast to grow by the average growth in recent years.
12. Deductions in the first miscellaneous category are forecast to grow by the average growth in CY 1996 through CY 2005.
13. Deductions in the second miscellaneous deduction category are forecast using a trend and recent differences between actual deductions and the trend.
14. Deductions for gambling losses are forecast using the average growth rate from CY 1999 through CY 2004.

Table 14 shows actual growth rates of itemized deduction for CY 2001 through CY 2005 and forecasts for CY 2006 through CY 2009.

Forecast Methodology and Projection Calculation

The process of estimating income tax revenue is based on a computer program that calculates tax liability for individual income tax returns. The program reads all of the information from each full-year resident return in the latest year's income tax returns database. For each return, it calculates the current year's tax liability. The program then applies an annual growth rate to each of the income and deduction line items on the return and calculates the next year's tax liability. This process is repeated, growing income and deductions and calculating tax liability, for each year of the forecast.

Before the program is run, growth rates for income and deductions must be estimated and future tax parameters, such as rate brackets and caps on deductions, must be calculated based on forecasts of inflation and any changes in state or federal law.

Once the simulation program has estimated future years' tax liability for full-year resident taxpayers who filed in the past year, a number of additional steps must be taken in order to produce projected fiscal year collections for all filers. These additional steps include adjusting for projected population growth; changes to state and federal tax law; adjustments for calendar year tax liability, additional revenue from less than full-time residents; reduced revenue due to credits; conversion from calendar year to fiscal year collections; and accounting for revenue from audits, penalties and interest, and other adjustments such as additional refunds.

The entire estimation process can be divided into seven steps:

1. Forecast growth rates for income categories, deductions, and number of taxpayers.
2. Divide income and deduction growth by the estimated number of taxpayers to give per capita growth.
3. Incorporate changes in state and federal law and forecast inflation in the program calculating future years' tax liability.
4. Calculate tax liability in CY 2007 through CY 2009 for full-year residents who filed a return for CY 2005 assuming that their income and deductions line items grow as forecast. Adjust the future tax liability of CY 2005 full-year filers for the percent of taxes paid by non-residents and part-year residents and for population growth to estimate total liability for each calendar year.
5. Estimate credits that will be claimed each year and subtract this amount from total liability to give the calendar year tax associated with returns.
6. Allocate calendar year tax liability to fiscal year tax liability.
7. Make legislative, audit, and any other adjustments to determine the final estimates of fiscal year revenue.

Forecast Growth Rates

Table 14 provides a summary of the projected growth rates used in the simulation model from income items, itemized deductions, and credits for CY 2006 through CY 2009. A number of different sources combine to provide the growth rate forecasts shown in Table 14. These include economic forecasts from Global Insight; information from the Bureau of Economic Analysis, U. S. Department of Commerce; commodity price forecasts from the Economic Research Service (USDA); historical trends from prior year data; estimated impacts of recent related legislation; population forecasts; and other sources.

Table 14
Historic and Projected Growth Rates for Line Items

	Historical Rates					Projected Rates			
INCOME ITEMS	CY 2001	CY 2002	CY 2003	CY 2004	CY 2005	CY 2006	CY 2007	CY 2008	CY 2009
FEDERAL AGI ITEMS									
Wages, salaries, tips, etc.	5.18%	2.80%	4.14%	5.81%	6.18%	9.50%	4.91%	4.00%	4.31%
Interest income	1.51%	-20.17%	-14.36%	-9.08%	16.56%	7.85%	5.51%	6.80%	9.98%
Dividend income	-19.30%	-12.43%	12.29%	27.56%	22.05%	11.19%	11.70%	10.90%	8.67%
Net business income	1.87%	0.43%	1.47%	8.11%	10.11%	1.53%	2.26%	2.63%	1.71%
Capital gain or (loss)	-37.62%	-18.88%	24.08%	50.86%	30.25%	0.00%	0.00%	0.00%	0.00%
Supplemental gains or (losses)	-7.08%	-24.10%	70.57%	25.52%	11.34%	-1.58%	-2.30%	-2.88%	-3.43%
Rents, royalties, partnerships, etc.	2.61%	10.60%	0.51%	25.84%	32.83%	10.12%	8.74%	9.00%	13.61%
Taxable IRAs and pensions	2.27%	1.35%	4.59%	8.40%	7.57%	7.22%	7.77%	5.38%	6.39%
Taxable portion of Soc. Sec.	0.73%	-1.13%	5.13%	14.31%	17.56%	11.66%	2.53%	2.55%	2.21%
Net farm income	-45.38%	-39.86%	7.18%	4.51%	9.80%	21.97%	14.41%	11.16%	7.40%
Other income	-1.48%	6.45%	-20.06%	-7.02%	-3.32%	-10.79%	-9.74%	-8.87%	-8.15%
Adjustments to Income	1.28%	23.21%	15.69%	7.28%	7.28%	7.27%	7.27%	7.27%	7.26%
ADDITIONS:									
Interest on state, county, bonds	4.78%	-2.97%	4.01%	6.47%	7.14%	-2.71%	4.11%	-14.22%	-11.98%
Federal income tax refunds	10.24%	21.34%	3.88%	5.72%	-7.04%	8.59%	8.59%	8.59%	8.59%
Other additions	0.73%	2.63%	18.14%	15.70%	-25.27%	0.00%	0.00%	0.00%	0.00%
REDUCTIONS:									
Farm risk management account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Elderly interest exclusion	0.09%	-7.40%	-7.41%	-5.24%	4.97%	na	na	na	na
Exclusion for savings bonds	-12.81%	-30.61%	-20.93%	-7.70%	12.93%	23.30%	1.91%	1.41%	5.13%
Exempt pension income	3.30%	2.98%	0.96%	0.96%	0.96%	na	na	na	na
Unemployment income	17.40%	31.53%	9.50%	-21.39%	-16.24%	0.00%	0.00%	0.00%	0.00%
Medical savings account excl.	21.63%	20.56%	14.70%	21.74%	3.43%	11.65%	10.43%	9.45%	8.63%
Family education account excl.	61.24%	60.42%	20.15%	13.52%	-6.55%	12.44%	11.06%	9.96%	9.06%
First-time homebuyers acct. excl.	23.47%	1.76%	14.94%	-18.84%	4.42%	4.42%	4.42%	4.42%	4.42%
Other reductions	6.46%	5.44%	6.83%	10.51%	12.06%	7.00%	7.00%	7.00%	7.00%

Table 14
Historic and Projected Growth Rates for Line Items (continued)

	Historical Rates					Projected Rates			
ITEMIZED DEDUCTIONS:	CY 2001	CY 2002	CY 2003	CY 2004	CY 2005	CY 2006	CY 2007	CY 2008	CY 2009
Medical insurance premiums	8.97%	9.89%	-1.99%	7.25%	6.03%	5.53%	5.53%	5.53%	5.53%
Medical deduction	9.95%	9.71%	6.12%	9.27%	5.73%	8.05%	8.05%	8.05%	8.05%
Long-term care insurance	4.14%	12.98%	8.86%	6.81%	3.53%	6.83%	6.39%	6.01%	5.67%
Balance of federal tax	2.51%	-21.55%	-5.09%	-11.00%	5.21%	1.86%	0.00%	0.00%	0.00%
Additional federal tax	61.28%	-31.92%	17.64%	0.55%	-20.23%	1.42%	1.42%	1.42%	1.42%
Property taxes	3.70%	10.66%	5.99%	7.44%	0.05%	4.56%	4.56%	4.56%	4.56%
Motor veh. and other deductible taxes	-18.12%	11.63%	3.00%	10.16%	26.69%	6.05%	6.05%	6.05%	6.05%
Home mortgage interest	7.03%	4.15%	-1.05%	4.24%	9.81%	6.57%	6.57%	6.57%	6.57%
Deductible investment interest	-9.45%	-22.57%	-12.23%	12.34%	38.17%	4.15%	-0.48%	-0.60%	0.27%
Contributions	3.57%	13.05%	-2.26%	11.23%	6.55%	3.82%	2.79%	2.47%	2.23%
Child/dependent care expenses	-7.59%	1.57%	2.18%	-9.36%	-3.22%	-3.10%	-3.10%	-3.10%	-3.10%
Casualty and theft losses	-56.20%	41.33%	-8.03%	-11.86%	23.74%	0.15%	0.15%	0.15%	0.15%
Tier I - Miscellaneous	9.07%	3.81%	0.45%	9.13%	8.53%	6.79%	6.79%	6.79%	6.79%
Tier II - Miscellaneous	-0.26%	13.45%	67.50%	-31.04%	7.25%	6.76%	3.01%	3.01%	3.01%
Gambling Losses	-14.98%	0.14%	-3.55%	22.97%	28.25%	8.34%	8.34%	8.34%	8.34%
CREDITS									
Capital gains tax credit					$15,361,935	0.00%	0.00%	0.00%	0.00%
Elderly homeowner/renter tax credit					$7,853,725	13.40%	5.00%	4.77%	4.55%
Physician credit for rural practice	$284,082	$405,666	$338,643	$336,829	$252,400	10.11%	4.89%	11.23%	10.10%
College contribution credit	$165,451	$166,369	$148,470	$171,903	$206,886	10.11%	4.89%	11.23%	10.10%
Charitable endowment credit	$7,410,957	$1,610,509	$2,138,608	$2,502,605	$2,491,431	10.11%	4.89%	11.23%	10.10%
Elderly care credit	$64,247	$27,493	$21,041	$27,911	$55,257	10.11%	4.89%	11.23%	10.10%
Other state/foreign tax credit	$13,501,613	$14,013,510	$14,479,498	$17,407,297	$18,854,161	10.11%	4.89%	11.23%	10.10%
Contractor's gross receipts credit	$649,632	$613,178	$776,635	$804,843	$1,024,102	10.11%	4.89%	11.23%	10.10%
Investment credit	$4,765	$1,756				10.11%	4.89%	11.23%	10.10%
Alternative energy systems credit	$40,193	$228,283	$300,489	$445,967	$640,431	10.11%	4.89%	11.23%	10.10%
Energy conservation credit	$201,445	$1,305,788	$2,440,965	$3,098,479	$5,623,446	10.11%	4.89%	11.23%	10.10%
Alternative energy production credit	$3,220	$13,312	$11,174	$16,982	$11,090	10.11%	4.89%	11.23%	10.10%
Recycling credit	$102,071	$66,369	$121,309	$307,678	$410,815	10.11%	4.89%	11.23%	10.10%
Alternative fuels credit	$2,924	$8,845			$25,283	10.11%	4.89%	11.23%	10.10%
Montana capital company credit	$170,001	$159,288			$49	10.11%	4.89%	11.23%	10.10%
Dependent care assistance credit	$538	$3,897	$8,484	$6,208	$8,818	10.11%	4.89%	11.23%	10.10%
Employee health insurance credit	$93,618	$61,113	$137,398	$427,460	$517,110	10.11%	4.89%	11.23%	10.10%
Infrastructure users fee credit	$0	$0			$851,766	10.11%	4.89%	11.23%	10.10%
Historic building preservation credit	$71,980	$74,777	$17,810	$97,748	$51,297	10.11%	4.89%	11.23%	10.10%
Developmental disability account credit				$1,050	$2,715	10.11%	4.89%	11.23%	10.10%
Empowerment zone credit				$365	$969	10.11%	4.89%	11.23%	10.10%
Other Credits	$901,516	$194,885	$178,460	$808,488	$8,937,198	10.11%	4.89%	11.23%	10.10%

Population Growth

The simulation program estimates future years' tax liability for taxpayers who filed returns for the most recent tax year. However the number of taxpayers does not stay constant in future years; growth in the number of taxpayers must be taken into account. Table 15 shows the number of full-year resident returns for CY 1996 through CY 2005 and projections for CY 2006 through CY 2009. This variable is modeled to determine the population adjustment used for tax returns.

Table 15
Full-Year Resident Tax Returns

Calendar Year	Tax Returns	% chg.	Model Population Adjustment
A 1996	449,231	1.63%	na
A 1997	452,703	0.77%	na
A 1998	459,441	1.49%	na
A 1999	468,417	1.95%	na
A 2000	479,971	2.47%	na
A 2001	479,444	-0.11%	na
A 2002	482,021	0.54%	na
A 2003	484,363	0.49%	na
A 2004	491,463	1.47%	na
A 2005	497,453	1.22%	1.000
F 2006	**504,537**	**1.42%**	1.024
F 2007	**511,621**	**1.40%**	1.049
F 2008	**518,705**	**1.38%**	1.074
F 2009	**525,790**	**1.37%**	1.098

Changes to State and Federal Tax Law

The simulation program calculates future tax liability for last year's full-year resident returns assuming that individual line items grow as forecast in Table 14. There are two types of adjustments that must be made to the program for each future year. One is to accommodate the fact that parts of both state and federal tax law, including rate tables and standard deductions, are indexed for inflation. The other is to reflect certain changes in state and federal tax law. Changes in state law are the result of SB 407 (2003 Session). Changes to federal tax law are the result of the Job Creation and Worker Assistance Act of 2002 (JCWAA), the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), and the Tax Increase Prevention and Reconciliation Act of 2005. Changes to federal rate tables, deductions, and some credits are incorporated into the simulation program. Certain other changes are made after the model is run to reflect known and estimated changes due to state legislation.

Calendar Year Tax Liability

The simulation program calculates tax liability for each return in the income tax database using the income and deductions reported on that return. For some returns, the calculated tax liability is different from the tax liability reported on the return. The most common reason for this is taxpayers attaching copies of their federal returns rather than entering information on the income lines of their state returns. In the database, these returns appear to have no income so that their calculated tax liability is zero. Table 16 shows the calculated tax liability and forecast growth rate for CY 2006 through CY 2009.

Table 16
CY 2005 - CY 2009 Tax Liability - Full-Year Residents Calculated from CY 2005 Returns

Calendar Year	Calculated Tax Liability	
	$ million	% Change
A 2005	652.519	-
F 2006	696.881	6.80%
F 2007	708.409	1.65%
F 2008	728.761	2.87%
F 2009	761.702	4.52%

The simulation model develops the estimated tax liability for taxpayers who are full-time residents. Total tax liability for each year is estimated by: (1) adjusting the CY 2005 tax liability for all full-time resident taxpayers for population and (2) multiplying the full-time resident taxpayer liability by 108.6%, to include nonresident or part-time resident tax liability.

Table 17 shows the results of the calculation of tax liability for all taxpayers for CY 2007 through CY 2009 based on CY 2005 returns.

Table 17
CY 2005 - CY 2009 Tax Liability of All Taxpayers Calculated from CY 2005 Returns
($ millions)

Calendar Year	FY 2005 Full Year Resident's Liability	Model Population Adjustment	Population Adjusted Liability	Non-resident Adjustment	All Taxpayers' Liability
A 2005	$652.519	1.000	652.519	1.086	$708.650
F 2006	$696.881	1.024	713.884	1.086	$775.294
F 2007	$708.409	1.039	735.895	1.086	$799.197
F 2008	$728.761	1.053	767.459	1.086	$833.476
F 2009	$761.702	1.068	813.117	1.086	$883.062

Deduct Income Tax Credit

Total tax liability for each year is all taxpayer's tax liability minus tax credits. Table 18 shows the projected tax liability after tax credits are deducted.

The low-income homeowner renter credit has grown relatively steadily over the last decade. The average credit claimed is forecast to grow at the average rate of growth from CY 2001 through CY 2005.

Other credits are estimated as a group based on the average growth rate from CY 2001 through CY 2005, but with an adjustment for the credit for contributions to a charitable endowment which sunsets at the end of CY 2007. Table 14 provides more detail on the historical values of individual credits.

Table 18
Calendar Year Tax Liability After Credits
($ millions)

	Calendar Year	Total Liability before Credits		Home-owner / Renter Credit		Other Credits		Tax
A	2005	$708.650	-	$11.580	-	$32.958	=	$664.112
F	**2006**	**$775.294**	**-**	**$13.132**	**-**	**$36.290**	**=**	**$725.871**
F	**2007**	**$799.197**	**-**	**$13.790**	**-**	**$38.065**	**=**	**$747.343**
F	**2008**	**$833.476**	**-**	**$14.447**	**-**	**$42.340**	**=**	**$776.690**
F	**2009**	**$883.062**	**-**	**$15.104**	**-**	**$46.614**	**=**	**$821.343**

Allocate Calendar Year Liability to Fiscal Years and Adjust for Extraordinary Refunds

Shown in Table 19 is the extraordinary refund adjustment. In October 2006 (FY 2007), refunds were $24 million larger than in October of 2005 (FY 2006). These refunds were made for CY 2005 tax liability; and thus, the FY 2006 revenues reflect payments made, but not related to the actual tax liability. The assumption is that the extraordinary refunds were due to overpaying estimated payments in FY 2006 because of the tax changes in SB 407.

Table 19
Fiscal Year Tax Liability Adjusted for Additional Refunds
($ millions)

Fiscal Year	Tax Liability	Adjustment	Adjusted Tax Liability
F 2006	**$747.435**	**$24.000**	**$723.435**
F 2007	**na**	**0.000**	**$765.065**
F 2008	**na**	**0.000**	**$790.990**
F 2009	**na**	**0.000**	**$829.699**

It has been estimated that collections in a fiscal year are equal to 52.1% of collections in the current calendar year and 47.9% of collections in the previous calendar year.

Table 20
Fiscal Year Tax Liability
($ millions)

Fiscal Year	Tax Liability	Growth Rate
F 2006	$723.435	5.86%
F 2007	$765.065	3.47%
F 2008	$790.990	3.47%
F 2009	$829.699	4.89%

Make Legislation, Audit, and Other Adjustments

Four adjustments are made to give the forecast of fiscal year collections. The first adjustment is for audit revenue and other collections that are not associated with tax returns. The estimated audit revenue is from the Department of Revenue.

The second adjustment is for legislative changes in the 2005 Session. As shown in Table 21, three bills passed in the 2005 Session change the individual revenue estimate by $3 million in FY 2007 and $3.6 million in FY 2008 and FY 2009.

Table 21
2005 Session Legislation Impacts of Individual Income Tax Revenue Estimates

Bill #	Short Title	FY 2007	FY 2008	FY 2009
HB 439	Disallow double credit for foreign income tax payment	$369,000	$369,000	$369,000
HB 667	Purchasing pools, tax credit for health insurance	($3,349,000)	($3,950,276)	($3,950,286)
SB 340	Builder allowed tax credit for residential geothermal systems	($45,000)	($45,000)	($45,000)
	2005 Session Legislation Impacts	**($3,025,000)**	**($3,626,276)**	**($3,626,286)**

The third adjustment, shown in Table 22, reflects the effect of the tax benefit rule enacted as part of SB 407 (2003 Session) which created a new cap on the amount of federal income tax that can be deducted. The fourth adjustment, also shown in Table 22, is for the second capital gains credit enacted as part of SB 407. The allowed credit for capital gains increases to 2% in FY 2007.

As shown in Table 22, individual income tax is projected to be $793.826 million in FY 2007, $797.002 million in FY 2008, and $851.073 million in FY 2009.

Table 22
Forecast Individual Income Tax Revenue
($ millions)

	Fiscal Year	Revenue Before Audit and Adjustments		Audit, Penalty and Interest, Prior Year		Adjustment for Prior Year Legislative Changes		SB 407 Tax Benefit Rule		Capital Gains Credit		Adjusted Forecast Collections
A	2005	$670.086	+	$37.240	+	$0.000	+	$0.000	+	$0.000	=	$707.327
F	**2006**	**$723.435**	**+**	**$22.744**	**+**	**$0.000**	**+**	**$0.000**	**+**	**$0.000**	**=**	**$746.178** [1]
F	**2007**	**$765.065**	**+**	**$25.000**	**+**	**($3.025)**	**+**	**($7.975)**	**+**	**$15.362**	**=**	**$793.826**
F	2008	$790.990	+	$25.000	+	($3.626)	+	$0.000	-	$15.362	=	$797.002
F	2009	$829.699	+	$25.000	+	($3.626)	+	$0.000	+	$0.000	=	$851.073

[1] Refunds given in October 2006 for the CY 2005 individual income tax liability were approximately $24 million higher than the prior year October refund level. Due to the tax reduction in CY 2005, this forecast assumes there were overpayments of estimated taxes in FY 2006 which resulted in over collection of revenues.

Data Sources

Revenue data is from SABHRS and the Department of Revenue. Estimated audit revenue for future years is from the Department of Revenue. Past employment and wage data is from the Bureau of Labor Statistics, U.S. Department of Labor. Commodity market estimates for future years is from the Economic Research Service, U.S. Department of Agriculture. Inflation estimates used in estimating certain future tax bracket and other tax data were from the Congressional Budget Office. Employment, wage, interest rates, and other economic data forecasts are from Global Insight's October 2006 forecast.

PROPERTY TAX

Revenue Description

Total property tax revenue is collected directly from mills levied on property, and indirectly from non-levy revenue sources. Currently, the state general fund receives property tax revenue from mill levies of 22, 33, and 40 mills (95 mill levy) that are levied statewide, and 1.5 mills (college of technology) levied on property in counties where colleges of technology reside (Silver Bow, Cascade, Yellowstone, Missoula, and Lewis and Clark). The 22, 33, 40, and 1.5 mill levies are subject to the property tax revenue limitations in 15-10-420, MCA. In general, the limitation states that property tax revenue for the current year cannot exceed property tax revenue generated in the prior year, plus an adjustment for one-half the rate of inflation and property tax from new construction.

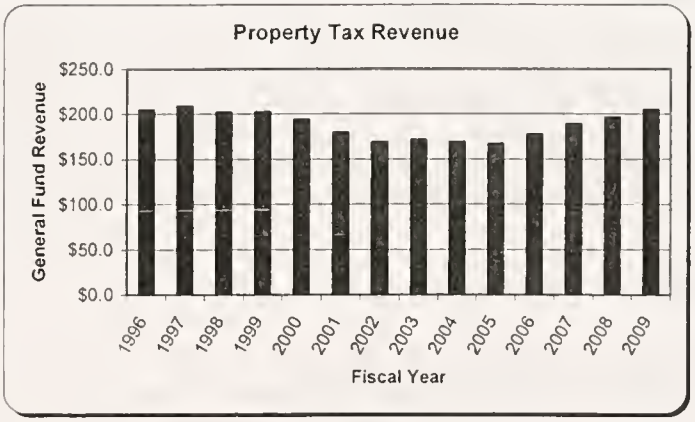
Non-levy revenue is received from sources other than a direct property tax mill levy. Generally, non-levy revenues are distributed to taxing jurisdictions based on the relative share of the total mills levied by all affected taxing jurisdictions. Non-levy revenues consist of coal gross proceeds, federal forest receipts, and other smaller revenue sources.

Historical and Projected Revenues

Table 1 shows actual general fund revenue from property tax for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Property Tax Revenue
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	205.111	-0.84%
A 1997	209.284	2.03%
A 1998	202.350	-3.31%
A 1999	202.774	0.21%
A 2000	194.197	-4.23%
A 2001	180.050	-7.28%
A 2002	169.339	-5.95%
A 2003	171.657	1.37%
A 2004	169.531	-1.24%
A 2005	167.270	-1.33%
A 2006	177.639	6.20%
F 2007	**189.423**	**6.63%**
F 2008	**197.068**	**4.04%**
F 2009	**204.961**	**4.01%**



From FY 1996 to the present, there have been many changes regarding property tax revenue. Some of these changes include certain property types being removed from taxable status, the removal of certain sources of non-levy revenue from property tax revenue, new property classes being created, and tax rates being revised. These changes have resulted in fluctuations of revenue since FY 1996. The 6.63% growth for FY 2007 is not forecast to be sustained. In fact, only three classes of property are forecast to have positive growth in FY 2008 and FY 2009, yielding property tax revenue growth rates of 4.04% in FY 2008 and 4.01% in FY 2009.

Forecast Methodology and Projection Calculation

The property tax projection is a combination of several forecasts. The methodology used to forecast the revenue from the property tax mill levies involves estimating taxable values and making the appropriate adjustments. Since revenues are estimated on a fiscal year basis, the revenue estimates for property tax will be based on the taxable value available for each fiscal year. The methodology used to forecast revenue from non-levy revenue sources depends on estimates of each particular revenue source.

Property Tax Mill Levy Revenue

There are five steps to calculate the property tax revenue generated from the 95 total mill levy and the 1.5 mill levy. They are: 1) estimate the growth rate for each class of property; 2) determine the applicable tax rate; 3) calculate the statewide fiscal year taxable value for each class of property; 4) determine the appropriate taxable value for the 95 and 1.5 mill levies; and 5) calculate the general fund property tax revenue for the 95 and 1.5 mill levies.

Step 1: Estimate the Growth Rate for Each Class of Property

The first step in estimating property tax revenue is estimating the growth rates of the assessed value of each property class. Historical valuation trends are generally used as the foundation for estimating future growth; adjustments are then made with the assistance of the Department of Revenue (DOR) appraisal staff. The adjustments depend primarily on future construction projects and the affects of changes in tax rates or depreciation factors. A single growth rate is determined for classes 1, 2, 7, and 10 as a group. Separate growth rates are determined for classes 3, 4, 5, 8, 9, 12, 13, and 14.

Growth Rate for Classes 1, 2, 7, and 10

This group of classes includes classes 1 and 2 (net and gross proceeds of mines), class 7 (non-centrally assessed utilities), and class 10 (forest land). Although the group comprises four of the twelve classes of property, it represents less than 1.7% of the total assessed value in CY 2006. As shown in Table 2, the collective value of class 1, 2, 7, and 10

property has fluctuated from CY 1998 to CY 2006. In CY 2005, the bentonite tax was removed from the property tax system, decreasing revenue in this group of property classes. In CY 2006, the total value of these combined property classes increased 37.3%. One-time investments due to the price of copper have greatly increased the taxable value of class 2 property. Excepting for this increase, the assessed value of these classes combined has remained stable. A 0% growth rate is used to project future assessed value for each class of property in this group.

Table 2
Assessed Value
Classes 1, 2, 7, and 10

Cal. Year	Assessed Value	Annual % Chg
1998	$25,864,878.00	3.6%
1999	$25,710,340.00	-0.6%
2000	$22,504,656.00	-12.5%
2001	$27,245,683.00	21.1%
2002	$26,747,376.00	-1.8%
2003	$24,392,016.00	-8.8%
2004	$26,226,412.00	7.5%
2005	$23,486,614.00	-10.4%
2006	$32,242,309.60	37.3%

The Effects of Reappraisal and SB 461 on Class 3 and Class 4 Growth

As Tables 3 and 4 indicate, reappraisal values for class 3 and class 4 property increased significantly in CY 2003. CY 2003 was a reappraisal year in the six-year reappraisal cycle for class 3 agricultural land, class 4 residential and commercial real property, and class 10 forestland. All three classes of property affected by the new reappraisal saw considerable changes in reappraisal values in CY 2003. However, SB 461 (2003 Session) mitigated the impacts due to reappraisal by adjusting the tax rates and exemption levels for classes 3 and 4. Under the provisions of SB 461, the total taxable value for classes 3 and 4 can not increase due to reappraisal; only natural growth or decline may affect taxable values. The growth rates for class 3 and class 4 are projected using historical information excluding the CY 2003 reappraisal impacts.

Growth Rate for Class 3 (Agricultural Land)

Logically, there should be no growth in the value of agricultural land. In fact, given the increasing subdivision of agricultural land into residential land, one could expect the growth rate of agricultural land to be slightly negative. Historical reappraisal values substantiate the notion that agricultural land is declining. As Table 3 indicates, agricultural land is declining at approximately -0.1% a year. This average change of -0.1% is used to project the assessed value of agricultural land in this estimate.

Table 3
Full Reappraisal Value
Class 3

Cal. Year	Full Reappraisal	Annual % Chg.
2000	$ 3,851,609,063	-0.9%
2001	$ 3,847,752,357	-0.1%
2002	$ 3,845,602,698	-0.1%
2003	$ 4,477,138,879	16.4%
2004	$ 4,470,737,962	-0.1%
2005	$4,457,023,294	-0.3%
2006	$4,453,806,563	-0.1%

Growth Rate for Class 4 (Residential and Commercial Real Property)

Table 4 shows the full reappraisal value of class 4 property from CY 1997 to CY 2006. Only new construction adds to the value of class 4 property during non-reappraisal years. New construction is measured using full reappraisal values. Full reappraisal values are only affected by two factors: 1) a new construction/destruction or 2) a reappraisal.

Historically, the growth in class 4 property, not including the CY 2003 reappraisal, varies little. As Table 4 shows, full reappraisal values over the last reappraisal cycle (CY 1997 to CY 2002) increased steadily, with an average annual growth rate of 4.0%. The post-reappraisal average annual growth rate, from CY 2004 to CY 2006, is 4.3%. The growth rate used for CY 2007 and CY 2008 is 4.15%, which is the average of the historical 4.0% growth rate and the more recent 4.3% growth rate.

Table 4
Full Reappraisal Value
Class 4

Cal. Year	Full Reappraisal	Annual % Chg.
1997	$33,202,404,844	
1998	$34,489,060,057	3.9%
1999	$35,837,770,990	3.9%
2000	$37,354,345,936	4.2%
2001	$38,622,120,375	3.4%
2002	$40,339,606,380	4.4%
2003	$50,621,939,423	25.5%
2004	$52,506,359,937	3.7%
2005	$54,886,911,650	4.5%
2006	$57,425,839,592	4.6%

Growth Rate for Class 5 (Rural Co-operatives and Pollution Control)

Table 5 shows the assessed value of class 5 property from CY 2002 to CY 2006. The average annual changes from CY 2002 through 2006 fluctuated from -7.6% in CY 2003 to 1.4% in CY 2006. However, over the long term, the value of class 5 property has remained relatively constant. Therefore, an annual growth rate of 0.0% is used for class 5 property.

Table 5
Assessed Value - Class 5

Cal. Year	Assessed Value	Annual % Chg.
2002	$1,180,181,662	
2003	$1,090,984,237	-7.6%
2004	$1,134,276,890	4.0%
2005	$1,154,283,917	1.8%
2006	$1,170,570,899	1.4%

Growth Rate for Class 8 (Business Equipment)

When examining historical assessment levels of class 8 business equipment to estimate a growth rate, there are additional factors to account for beyond total assessment levels. Some property is no longer included in class 8 and other property is exempted.

SB 200 (1999 Session) exempted all class 8 property of any entities owning $5,000 or less of property in that class. Owners of class 8 property with a market value of $5,000 or less accounted for approximately $50 million of the total market value of class 8 in CY 1999. SB 48 (2005 Session) increased the exemption amount from $5,000 to $20,000. As a result, $160 million of the total market value of class 8 property is exempted in CY 2006.

In this analysis and in Table 6, with the exception of the exemption allowed under SB 200, property types are removed accordingly so each year only includes like property for comparison. The exemption allowed under SB 200 is not adjusted in this analysis because the actual value of those properties in years other than CY 1999 is unknown.

Table 6
Assessed Value - Class 8 Business Equipment

Cal. Year	Assessed Value	Attributed to Outlier	Net Assessed Value	Annual % Chg
2000	$3,727,546,491	$351,528,681.00	$ 3,376,017,810	0.9%
2001	$3,943,691,027	$375,349,663.00	$ 3,568,341,364	5.7%
2002	$4,012,212,828	$351,473,759.00	$ 3,660,739,069	2.6%
2003	$3,995,585,302	$352,776,622.00	$ 3,642,808,680	-0.5%
2004	$3,989,981,886	$195,577,815.00	$ 3,794,404,071	4.2%
2005	$4,184,890,533	$196,365,693.00	$ 3,988,524,840	5.1%
2006	$4,643,968,393	$217,243,027.00	$ 4,426,725,366	11.0%
Minus value attributed to one-time investments			($292,000,000)	
2006	(adjusted)		$4,134,725,366	3.7%

When calculating the estimated growth of class 8 property, an adjustment to the historical comparison is made for the Ramsay tax increment finance district (TIF) in Silver Bow County. Beginning in 1998, a company in the Ramsay TIF district made large investments in business equipment. There are two reasons to isolate this property when projecting class 8 growth. First, this event is highly unusual and can be considered an outlier. Second, the value of the property is in the incremental taxable value of a TIF district; and, therefore, the state does not receive the 95 mill levy property tax revenue from this investment. Excluding this property from the total statewide market value makes the annual percent changes truer to the reality of statewide growth in the value of class 8 property.

The value of class 8 property increased 11.0% from CY 2005 to CY 2006. However, much of the increase is attributable to approximately $292 million in one-time investments made in the natural resource sector of the economy. A refinery in Yellowstone County, oil production investments in Fallon County, and heavy corporate investments in Missoula County all contribute to this sum of $292 million. If the one-time investments are removed the FY 2006 growth is 3.7%. Growth in the value of class 8 property is forecast to be 4.3%, which is the average annual growth rate from CY 2004 to CY 2006, using the adjusted CY 2006 growth rate.

Growth Rate for Class 9 (Non-Electric Generation Property of Electric Utilities)

Table 7 shows the assessed value of class 9 property from CY 2002 to CY 2006. The 8.6% growth in CY 2005 can be attributed to an outlier company that saw a 20% increase in assessed value in CY 2005. The average annual growth rate for class 9 property from CY 2002 to CY 2006, adjusting for the one time event in CY 2005, is 3.55%. This growth rate is used to project the value of class 9 property.

Table 7
Assessed Value - Class 9

Cal. Year	Assessed Value	Annual % Chg.
2002	$1,719,851,111	
2003	$1,767,716,825	2.8%
2004	$1,833,334,211	3.7%
2005	$1,990,999,093	8.6%
One-time 05	($100,000,000)	
Adjusted 05	$1,890,999,093	3.1%
2006	$2,070,804,959	4.0%

Growth Rate for Class 12 (Railroad and Airline Property)

Table 8 shows the assessed value of class 12 property for CY 2002 through CY 2006. Since CY 2002, the average annual growth rate has been nearly 0%. A growth rate of 0% is therefore used to forecast the value of class 12 property in this estimate.

Table 8
Assessed Value - Class 12

Cal. Year	Assessed Value	Annual % Chg.
2002	$ 1,161,404,952	
2003	$ 1,176,037,585	1.3%
2004	$ 1,183,046,155	0.6%
2005	$ 1,183,615,589	0.0%
2006	$ 1,171,178,046	-1.1%

Growth Rate for Class 13 (Telecommunications and Electric Generation)

Telecommunications and electric generation businesses saw significant downturns in their respective industries in CY 2003 and CY 2004. However, both industries rebounded in CY 2005 and CY 2006. Two companies made large investments pursuant to 15-24-3001, MCA, which exempts all investments that meet the criteria of the law. A total of $178.7 million of the growth in CY 2006 represents exempt property. When this amount is excluded, the annual percent change is 6.2% rather than 14.9% in CY 2006. There is a net decrease in the assessed value of class 13 property from

Table 9
Assessed Value - Class 13

Cal. Year	Assessed Value	Annual % Chg.
2002	$ 2,286,414,106	
2003	$ 2,041,207,238	-10.7%
2004	$ 2,008,084,452	-1.6%
2005	$ 2,048,766,060	2.0%
2006	$ 2,354,748,573	14.9%
Exempt 06	($178,692,458)	
Adjusted 06	$ 2,176,056,115	6.2%

CY 2002 to CY 2006 (adjusted). Consequently, a 0% growth rate is used to forecast the value of class 13 property in this estimate.

Growth Rate for Class 14 (Wind Power Generation)

Class 14, wind power generation, is a new class of property added in CY 2006. Only one wind power generation facility currently exists in Montana. As Table 10 shows, the assessed value of class 14 property in CY 2006 was $170.4 million. No additional growth in wind power generation facilities is expected in FY 2008 or FY 2009. A 0% growth rate is therefore used to project future growth in this estimate.

Table 10
Assessed Value - Class 14

Cal. Year	Assessed Value	Annual % Chg.
2006	$ 170,378,800	-

Summary of Growth Rates for Each Property Class

Table 11 shows the CY 2007, CY 2008, and CY 2009 estimated growth rate for each class of property. As highlighted in the table, classes 4, 8, and 9 are the only classes of property which are growing.

Table 11
Estimated Calendar Year 2007 and 2008 Growth Rates by Property Tax Class

		Estimated Growth Rate		
Class	Description	CY 2007	CY 2008	CY 2009
1	Net Proceeds of Mines	0.00%	0.00%	0.00%
2	Gross Proceeds of Mines	0.00%	0.00%	0.00%
3	Agricultural Land	-0.10%	-0.10%	-0.10%
4	Res./Comm. Real Property	4.15%	4.15%	4.15%
5	Rural Co-Op/Pollution Control	0.00%	0.00%	0.00%
7	Non-centrally Assessed Utilities	0.00%	0.00%	0.00%
8	Business Personal Property	4.30%	4.30%	4.30%
9	Utilities	3.55%	3.55%	3.55%
10	Forestland	0.00%	0.00%	0.00%
12	Airlines/Railroads	0.00%	0.00%	0.00%
13	Telecomm. & Electric Generation	0.00%	0.00%	0.00%
14	Wind Power Generation	0.00%	0.00%	0.00%

Step 2: Determine the Applicable Tax Rate for Each Class of Property

Tax rates for each class of property must be determined. Property tax rates for each class of property, set forth by law, are shown on the left-hand side of Table 12. Three classes of property require further calculations to determine the actual or applicable tax rate: class 3 agricultural land, class 4 residential and commercial, and class 12 railroads and airlines. Classes 3 and 4 have special rates which apply to sub-categories of property. Therefore, the annual tax rate is different than the standard tax rate specified in the law. The applicable tax rate is the actual overall tax rate for the class after considering the special tax rate provisions for certain property. The class 12 rate is impacted by the federal 4-R Act. The specific provisions are discussed in the next section under the appropriate class of property.

Table 12
Actual & Applicable Property Tax Rates for FY 2007 through FY 2009

	Standard Tax Rate			Applicable Tax Rate		
Property Tax Class	FY 07	FY 08	FY 09	FY 07	FY 08	FY 09
Class 1 - Net Proceeds	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Class 2 - Gross Proceeds	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Class 3 - Agricultural Land	3.14%	3.07%	3.01%	3.33%	3.24%	3.17%
Class 4 - Residential and Commercial	3.14%	3.07%	3.01%	3.11%	3.04%	2.98%
Class 5 - Pollution Control	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Class 7 - Non-centrally Assessed Utilities	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Class 8 - Business Equipment	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Class 9 - Pipelines and Non-Elec. Generating	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%
Class 10 - Forestland	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%
Class 12 - Airlines and Railroads	3.55%	Calculate	Calculate	3.55%	3.44%	3.35%
Class 13 - Telecom. & Electrical Generation	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Class 14 - Wind Power Generation	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Step 3: Determine Taxable Value for Each Class of Property

All property except classes 3, 4, and 10[1] have a full market value established January 1 of each year. Classes 3, 4, and 10 have full reappraisal value established every six years. SB 461 (2003 Session) and 15-7-111, MCA, which phases in the reappraisal values for classes 3 and 4 property over six years, must be considered when calculating taxable values for class 3 and 4.

SB 461, as shown in Table 13, in conjunction with the six-year phase-in

Table 13
SB 461 Tax and Exemption Rates

Fiscal Year	Class 4 Tax Rate	Class 4 Exemption Percent Residential	Commercial
2003	3.46%	31.00%	13.00%
2004	3.40%	31.00%	13.00%
2005	3.30%	31.40%	13.30%
2006	3.22%	32.00%	13.80%
2007	3.14%	32.60%	14.20%
2008	3.07%	33.20%	14.60%
2009	3.01%	34.00%	15.00%

1 Class 10 forestland is 0.4% of the total taxable value and has a tax rate of 0.35%. No adjustments are discussed or made for class 10 property in this revenue estimate as this amount is quite small.

provisions[2] of the law, mitigates the effects of reappraisal by decreasing the tax rate for classes 3 and 4 and increasing the tax-exempt percentage for class 4 residential and commercial property. This analysis assumes that SB 461 holds classes 3 and 4 existing property taxable values neutral, and that the only change in taxable value is attributable to the normal growth rates determined in step 1.

Taxable Value for Class 1, 2, 5, 7, and 10

There are no statutory changes to class 1, net proceeds of all mines except coal and metal; class 2, gross proceeds from metal mines; class 5 rural co-operatives and pollution control; class 7 non-centrally assessed utilities; and class 10 forestland. As seen in Table 14, since a growth rate of 0% has been estimated for these classes of property, the projected taxable value is held constant at their CY 2006, or FY 2007 level.

Table 14
Taxable Value - Classes 1, 2, 5, 7, and 10

Fiscal Year	Taxable Value				
	Class 1	Class 2	Class 5	Class 7	Class 10
A 2007	$3,252,295	$21,106,138	$35,077,724	$1,068,358	$6,815,519
F 2008	**$3,252,295**	**$21,106,138**	**$35,077,724**	**$1,068,358**	**$6,815,519**
F 2009	**$3,252,295**	**$21,106,138**	**$35,077,724**	**$1,068,358**	**$6,815,519**

Taxable Value for Class 3 (Agricultural Land)

Table 15 shows the combined impacts of the assessed value growth rate, the 6-year phase-in valuation effects of the 2003 reappraisal, and the reduced tax rate for class 3 property. Although the assessed value of class 3 increases due to phasing-in the 2003 reappraisal, the increase is offset by the tax rate reduction under SB 461. As previously explained, the tax rate reduction was designed to hold the taxable value of class 3 property neutral. Thus the taxable value of class 3 decreases -0.10% a year, which is the estimated growth rate.

Table 15
Taxable Value - Class 3

Fiscal Year	Assessed Value	% Chg	Tax Rate	Applicable Tax Rate	Taxable Value	% Chg
A 2007	$4,241,065,540	-	3.14%	3.33%	$141,002,419	-
F 2008	**$4,343,084,032**	**2.41%**	**3.07%**	**3.24%**	**$140,861,417**	**-0.10%**
F 2009	**$4,444,909,939**	**2.34%**	**3.01%**	**3.17%**	**$140,720,555**	**-0.10%**

The applicable tax rates for agricultural land are higher than the standard tax rates for class 3 property of 3.14% in FY 2007, 3.07% in FY 2008, and 3.01% in FY 2009. Some

[2] The new value is phased in over six years if it is an increase in value. If the new reappraisal value is less than the prior reappraisal value, then the new value is effective immediately.

property in class 3 is classified as non-qualified agricultural land. This land is valued at the average grade of grazing land and has a tax rate seven times the standard agricultural land tax rate. This causes the applicable tax rate to be higher than the standard rate. The agricultural land tax rate for revenue estimation purposes is 3.33% in FY 2007, 3.24% in FY 2008, and 3.17% in FY 2009.

Taxable Value for Class 4 (Residential and Commercial Real Property)

In conjunction with the current law six-year phase-in of the reappraisal value, SB 461 mitigates the effects of reappraisal on class 4 residential and commercial real property. SB 461, as shown in Table 13, uses two adjustments to neutralize the increase in class 4 taxable value: 1) an increase in the exemption percent for residential and commercial property and 2) a reduction in the tax rate . Table 16 shows the net assessed value, which is the phased-in market value after the homestead and comstead exemptions are applied, the applicable tax rate, the taxable value, and the percent change in taxable value. Since SB 461 mitigates the effects of reappraisal, the only projected change to taxable value is attributable to the estimated 4.15% growth rate for new construction.

Table 16
Taxable Value - Class 4

Fiscal Year	Net Assessed Value (After Exemption)	% Chg.	Applicable Tax Rate	Taxable Value	% Chg.
A 2007	$38,042,562,762	-	3.112%	$1,183,820,993	-
F 2008	**$40,530,886,397**	**6.5%**	**3.042%**	**$1,232,949,564**	**4.15%**
F 2009	**$43,062,272,674**	**6.2%**	**2.982%**	**$1,284,116,971**	**4.15%**

The applicable tax rates for class 4 property are 3.112% for FY 2007, 3.042% for FY 2008, and 2.982% for FY 2009. These tax rates are slightly lower than the standard tax rates for class 4 property of 3.14% in FY 2007, 3.07% in FY 2008, and 3.01% in FY 2009. This is due to: 1) residential property in the property tax assistance (low-income) program and the extended property tax assistance program having a lower tax rate; 2) golf courses being taxed at half the standard class 4 tax rate; and 3) commercial property included in local option abatement programs having a lower tax rate. As properties in these categories have a lower tax rate than the standard tax rate, the applicable tax rate is lower than the standard tax rate.

Taxable Value for Class 8 (Business Equipment)

Class 8 business equipment is projected using the estimated growth rate of 4.30%. For all classes of property except class 8, property tax collected on the calendar year taxable value is the next fiscal year's revenue. (CY 2006 = FY 2007). For class 8 property, fiscal year tax payments are not based on the prior calendar year taxable value. Class 8

property not liened to real property (38%) is taxed in the spring of the calendar year. Class 8 property liened to real property (62%) is collected in the following fiscal year when the normal property tax payments are made in November and May. Therefore FY 2008 taxable value is 62% of CY 2007 taxable value and 38% of CY 2008 taxable value. Table 17 shows the estimated total taxable value of class 8 for FY 2007 through FY 2009.

Table 17
Taxable Value - Class 8

Fiscal Year	Assessed Value	% Chg.	Tax Rate	Taxable Value	% Chg.
A 2007	$4,589,136,915	-	3.0%	$137,674,107	-
F 2008	**$4,772,702,392**	**4.30%**	**3.0%**	**$143,181,072**	**4.30%**
F 2009	**$4,963,610,487**	**4.30%**	**3.0%**	**$148,908,315**	**4.30%**

Taxable Value of Class 9 (Utility Property)

Class 9 is the non-electric generation property of electric utilities and the property of centrally assessed pipelines. As Table 18 shows, a 3.55% growth rate in the taxable value of class 9 property is forecast for FY 2008 and FY 2009.

Table 18
Taxable Value - Class 9

Fiscal Year	Assessed Value	% Chg.	Tax Rate	Taxable Value	% Chg.
A 2007	$2,069,334,900	-	12.0%	$248,320,188	-
F 2008	**$2,142,796,289**	**3.55%**	**12.0%**	**$257,135,555**	**3.55%**
F 2009	**$2,218,865,557**	**3.55%**	**12.0%**	**$266,263,867**	**3.55%**

Taxable Value of Class 12 (Railroad and Airline Property)

The projected taxable value for class 12 railroad and airline property is a based on an annual growth rate of 0% and the estimated tax rate applied to class 12 property.

The tax rate for class 12 property is the average tax rate of all non-class 12 commercial and industrial property in the state. The applicable class 12 tax rate in FY 2007 is 3.55%. Historically, the class 12 tax rate decreases annually as the effective tax rates of all other commercial property decrease. Using the estimated assessed and taxable values for commercial and industrial property, as Table 19 shows, the class 12 rate is projected to be 3.44% in FY 2008 and 3.35% in FY 2009. This reduced tax rate results in a 3.1% taxable value decline in FY 2008 and a 2.6% decline in FY 2009.

Table 19
Taxable Value - Class 12

Fiscal Year	Assessed Value	% Chg.	Tax Rate	Taxable Value	% Chg.
A 2007	$1,171,178,046	-	3.55%	$41,576,814	-
F 2008	**$1,171,178,046**	**0.0%**	**3.44%**	**$40,291,023**	**-3.1%**
F 2009	**$1,171,178,046**	**0.0%**	**3.35%**	**$39,232,188**	**-2.6%**

Taxable Value for Class 13 (Telecommunication and Electrical Property)

Table 20 shows the estimated taxable value for class 13 property. The taxable rate for class 13 property is 6%. Taxable values for class 13 property are based on an annual growth rate of 0%.

Table 20
Taxable Value - Class 13

Fiscal Year	Assessed Value	% Chg.	Tax Rate	Taxable Value	% Chg.
A 2007	$2,354,748,573	-	6.0%	$130,475,712	-
F 2008	$2,354,748,573	**0.0%**	**6.0%**	**$130,475,712**	**0.0%**
F 2009	$2,354,748,573	**0.0%**	**6.0%**	**$130,475,712**	**0.0%**

Taxable Value for Class 14 (Wind Generation)

Table 21 shows the actual taxable value for class 14 wind generation property for FY 2007 and forecast taxable value for FY 2008 and FY 2009. Currently, all existing class 14 property qualifies for a 50% local abatement. The taxable value of class 14 property is forecast to remain the same for FY 2008 and FY 2009.

Table 21
Taxable Value - Class 14

Fiscal Year	Assessed Value	Exempt Value	Net Assessed Value	% Chg	Tax Rate	Taxable Value	% Chg.
A 2007	$170,378,800	$85,189,400	$85,189,400	-	3.0%	$2,555,683	-
F 2008	$170,378,800	$85,189,400	$85,189,400	**0.0%**	**3.0%**	**$2,555,683**	**0.0%**
F 2009	$170,378,800	$85,189,400	$85,189,400	**0.0%**	**3.0%**	**$2,555,683**	**0.0%**

Taxable Value Summary

Table 22 summarizes the taxable value for each class of property. The statewide total taxable value for FY 2006 is $1.863 billion. Fiscal year taxable values are projected to be $1.953 billion in FY 2007, $2.015 billion in FY 2008, and $2.080 billion in FY 2009. This is a taxable value growth of 4.84% in FY 2007, 3.18% in FY 2008, and 3.22% in FY 2009.

Table 22
Taxable Value Summary

Property Class Description	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
1. Net Proceeds	$2,694,216	$3,252,295	$3,252,295	$3,252,295
2. Gross Proceeds	$13,045,195	$21,106,138	$21,106,138	$21,106,138
3. Agricultural Land	$140,988,242	$141,002,419	$140,861,417	$140,720,555
4. Res./Comm. Real Property	$1,129,794,467	$1,183,820,993	$1,232,949,564	$1,284,116,971
5. Rural Co-Op/Poll. Control	$34,611,220	$35,077,724	$35,077,724	$35,077,724
7. Non-centrally Assessed Util.	$953,438	$1,068,358	$1,068,358	$1,068,358
8. Business Equipment	$127,826,928	$137,674,107	$143,181,072	$148,908,315
9. Pipelines, Elec. Trans.	$238,766,675	$248,320,188	$257,135,555	$266,263,867
10. Forest Land	$6,793,765	$6,815,519	$6,815,519	$6,815,519
12. Airlines/Railroads	$44,267,220	$41,576,814	$40,291,023	$39,232,188
13. Telecomm./Elec Generation	$122,845,989	$130,475,712	$130,475,712	$130,475,712
14. Wind Power Generation	$0	$2,555,683	$2,555,683	$2,555,683
Statewide Taxable Value	$1,862,587,355	$1,952,745,950	$2,014,770,059	$2,079,593,325
Annual Change in Total Value		4.84%	3.18%	3.22%

Step 3: Calculate the 95 Mill Levy Revenue

The 95 mill levy is levied statewide. However, it cannot be applied directly to the statewide taxable values in Table 22. Two adjustments must be made to the statewide taxable values before applying the 95 mills. The adjustments remove the taxable value associated with TIFs and add the taxable value from property receiving local abatements. After accounting for TIFs and local abatements, the 95 mills can be levied. Finally, a deduction is made to account for SB 417 (1995 Session) personal property tax reimbursement to local governments.

Taxable Value Adjustment 1 - Tax Increment Finance Districts (TIFs)

The taxable values in Table 22 include the incremental taxable value of property in TIFs, which must be removed for the 95 mill revenue estimate. The TIF district, rather than the state, realizes the property tax revenue generated by 95 mills levied to the incremental taxable value of a TIF. There are currently 20 TIF districts in the state. As shown in Table 23, the estimated incremental taxable value of all TIF districts is $28,830,201 in FY 2007, $28,497,681 in FY 2008, and $24,873,460 in FY 2009. The estimated values for FY 2008 and FY 2009 reflect removing expired districts and projecting growth in each district individually.

Table 23
Statewide TIF Incremental Value - FY 2007 - FY 2009

	County	District	Fiscal 2007	Fiscal 2008	Fiscal 2009	Est. Growth
College of Tech Counties	Cascade	Grt Falls-Downtown	$3,832,568	$4,024,196	$4,225,406	5.0%
	Cascade	Grt Falls-IMC	$141,345	$148,412	$155,833	5.0%
	Missoula	Msla-1-1d Renewal Dst III	$705,908	$741,203	$778,264	5.0%
	Missoula	Msla-20-3A Airport	$1,684,954	$1,769,202	$1,857,662	5.0%
	Missoula	Msla-1-1C Renewal Dst II	$1,107,005	-	-	3.0%
	Missoula	Msla-4-1c Renewal Dst II	$270,856	-	-	-1.0%
	Silver Bow	Butte-Up Tn	$2,939,108	$3,086,063	$3,240,367	5.0%
	Silver Bow	TIFID #2 (Ramsey)	$7,289,652	$7,654,135	$8,036,841	5.0%
	Yellowstone	Billings 2TI	$4,773,037	$4,773,037	-	0.0%
	Yellowstone	Billings 2TI2	$48,097	$50,502	$53,027	5.0%
		Subtotal	$22,792,530	$22,196,249	$18,294,372	
Other Counties	Lincoln	Riverside (Eureka)	$10,968	$10,968	$10,968	0.0%
	Chouteau	TIFD1 (Fort Benton)	$16,422	$14,780	$13,302	-10.0%
	Deer Lodge	TID1	$76,371	$77,555	$78,757	1.6%
	Deer Lodge	TID2	$16,695	$20,034	$24,041	20.0%
	Gallatin	Bozeman Downtown	$884,321	$928,537	$974,964	5.0%
	Flathead	Kalispell-B (2)	$497,403	$497,403	$497,403	0.0%
	Flathead	Kalispell-C (3)	$202,196	$202,196	$202,196	0.0%
	Flathead	Whitefish	$4,206,878	$4,417,222	$4,638,083	5.0%
	Park	Livingston T-2	$42,312	$44,428	$46,649	5.0%
	Park	Livingston T-1	$84,105	$88,310	$92,726	5.0%
		Subtotal	$6,037,671	$6,301,432	$6,579,088	
		Statewide Total	$28,830,201	$28,497,681	$24,873,460	

Taxable Value Adjustment 2 - Abated Property

Under Montana law, local governments have the authority to reduce the taxable value of property subject to local mill levies. For example, the business equipment for a qualified new business may be subject to a tax rate of 1.5% instead of 3%. However, this abatement does not apply to the 95 mills levied statewide. The local property tax liability will be calculated at the lower, abated tax rate, but the state property tax will be calculated with the normal tax rate.

The summary of statewide total taxable values listed in Table 22 is stated at the reduced taxable value of property subject to a local abatement. When applying state mills, this abated taxable value is added to the statewide total. The amount of abated taxable value for FY 2007 is $18,854,527, as shown in Table 24. For estimation purposes, the value of the abated property in FY 2008 and FY 2009 is held at the FY 2007 level.

Table 24
Abated Taxable Value

Fiscal Year	Taxable Value
A 2007	$18,854,527
F 2008	$18,854,527
F 2009	$18,854,527

Deduction 1 - SB 417 Reimbursements

Table 25 shows SB 417 reimbursement amounts. SB 417 (1995 Session) reduced the tax rate applied to class 8 business equipment property from 9% to 6% over a three-year period, with the first tax rate reduction in 1996. Local governments and school districts are compensated for the loss of property tax revenue associated with SB 417 by the county treasurer retaining part of the 95 mill property tax revenue. Thus SB 417 reimbursements are subtracted from the state estimate of the 95 mill property tax revenue which is remitted to the state. Starting in FY 2000, the reimbursements are phased out for each taxing jurisdiction at 10% of the FY 1999 amount each year. The reimbursement for FY 2000 is 90% of the FY 1999 reimbursement. The FY 2001 reimbursement is 80% of the FY 1999 reimbursement, and so on until the last reimbursement in FY 2008. Taxing jurisdictions that expire do not continue to receive a reimbursement. The SB 417 reimbursement schedule for FY1996 through FY 2009 is listed in Table 25.

Table 25
SB 417 Reimbursement

Fiscal Year	Amount
1996	$2,263,486
1997	$7,881,301
1998	$12,201,128
1999	$14,125,466
2000	$12,712,919
2001	$11,300,373
2002	$9,887,826
2003	$8,439,377
2004	$7,032,814
2005	$5,626,250
2006	$4,185,248
2007	$2,802,314
2008	$1,415,586
2009	$0

Calculate State 95 Mill Levy Property Tax Revenue

Table 26 shows the calculation of the general fund revenue from the 95 mill levy. First, the statewide taxable value is adjusted for the TIFs and abated property taxable value. Second, the adjusted statewide taxable value is multiplied by the 95 mills. Third, SB 417 reimbursements retained by local governments are deducted. Property tax revenue generated by 95 mills is forecast to be $181.8 million in FY 2007, $189.1 million in FY 2008, and $197.0 million in FY 2009.

Table 26
Calculation of General Fund Revenue from 95 Mill Levy

Calculation	FY 2007	FY 2008	FY 2009
Unadjusted Statewide Taxable Value	$1,952,745,950	$2,014,770,059	$2,079,593,325
Subtract TIF Value	($28,830,201)	($28,497,681)	($24,873,460)
Add Abated Property Value	$18,854,527	$18,854,527	$18,854,527
Taxable Value for 95 Mills	$1,942,770,276	$2,005,126,905	$2,073,574,391
Apply 95 Mills	X 0.095	X 0.095	X 0.095
State 95 Mill Levy Revenue	$184,563,176	$190,487,056	$196,989,567
Less SB 417 Reimbursements	($2,802,314)	($1,415,586)	$0
State Revenue from 95 Mills	**$181,760,862**	**$189,071,470**	**$196,989,567**

Calculate the 1.5 Mill Levy Property Tax Revenue

A 1.5 mill is levied on property in five counties where colleges of technology reside (Silver Bow, Cascade, Yellowstone, Missoula, and Lewis and Clark). Table 27 shows the actual FY 2007 taxable values and the FY 2008 and FY 2009 estimated taxable values of the five counties and the percent of statewide taxable value located in each county.

Table 27
Taxable Value of Counties with Colleges of Tech.

	----- Actual ------	---------- Projected ----------	
County	Fiscal 2007	Fiscal 2008	Fiscal 2009
Cascade	$116,762,441	$120,841,976	$125,118,746
Lewis and Clark	$95,689,867	$99,033,152	$102,538,077
Missoula	$184,150,643	$190,584,638	$197,329,701
Silver Bow	$62,093,086	$64,262,541	$66,536,885
Yellowstone	$234,792,453	$242,995,810	$251,595,779
Col. of Tech. Cnty Total	$693,488,490	$717,718,117	$743,119,187
Divide by Statewide Total	$1,952,745,950	$2,014,770,059	$2,079,593,325
Percent of Total	**35.5%**	**35.6%**	**35.7%**
Growth Rate (plus 10%)		3.49%	3.54%

The taxable value of the five counties with a college of technology represents 35.6% of the statewide taxable value in FY 2007. However, because there are multiple new or expanding large commercial projects located in these counties, it is expected that these counties will have higher growth rates than the average statewide growth (shown in Table 22) for the next two years. For estimation purposes, the average growth applied to the 1.5 mill levy counties is increased 10% over the statewide average for each year, yielding growth rates of 3.49% in FY 2007 and 3.54% in FY 2008.

The counties' taxable value for the 1.5 mill levy is adjusted by subtracting the TIF districts incremental taxable value and adding the taxable value of abated property, both of which are explained below.

Taxable Value Adjustment 1 - Increment Finance District (TIF) - 1.5 Mill Levy

Table 28 shows the TIF value in the counties where the five colleges of technology are located. Those values are estimated to be $22.8 million in FY 2007 and $22.2 million in FY 2008. Prior to FY 2009, some TIF districts will expire in the five counties. After these TIF districts expire, the FY 2009 taxable value of the TIF districts is estimated to be $18.3 million

Table 28
Value of TIFs
1.5 Mill Levy Counties

Fiscal Year	Taxable Value
F 2007	**$22,792,530**
F 2008	**$22,196,249**
F 2009	**$18,294,372**

Taxable Value Adjustment 2 - Abated Property - 1.5 Mill Levy

Table 29 shows the actual taxable value of abated property in the five counties where colleges of technology are located. This value was $5.06 million in FY 2007. For estimation purposes, abated taxable value of the five counties which have colleges of technology is held constant at the FY 2007 level in FY 2008 and FY 2009.

Table 29
Abated Value
1.5 Mill Levy Counties

Fiscal Year	Taxable Value
A 2007	$5,063,682
F 2008	$5,063,682
F 2009	$5,063,682

Calculate 1.5 Mill Levy General Fund Revenue

To calculate the 1.5 mill levy taxable value, the total taxable value of the five counties which have colleges of technology is adjusted for the values of the TIFs and abated property. Then the 1.5 mill levy is applied to the adjusted taxable value. Table 30 shows the 1.5 mill levy calculation. The estimated property tax general fund revenue generated by the college of technology 1.5 mill levy is $1,013,639 in FY 2007, $1,050,878 in FY 2008, and $1,094,833 in FY 2009.

Table 30
Property Tax 1.5 Mill Levy General Fund Revenue

Calculation	FY 2007	FY 2008	FY 2009
Unadjusted Taxable Value	$693,488,490	$717,718,117	$743,119,187
Adjustment for TIF Valuations	($22,792,530)	($22,196,249)	($18,294,372)
Adjustment for Abated Property	$5,063,682	$5,063,682	$5,063,682
Adjusted Taxable Value	$675,759,642	$700,585,550	$729,888,497
Apply the 1.5 Mill Levy	X 0.0015	X 0.0015	X 0.0015
1.5 Mill Levy Revenue	**$1,013,639**	**$1,050,878**	**$1,094,833**

Revenue Estimate – 95 Mill and 1.5 Mill Levy Revenue

Table 31 combines the 95 and the 1.5 mill levy property tax revenue. In CY 2005, $2.527 million, which is 50% of the protested general fund property tax revenue, was deposited in the state protested property tax account. This amount is subtracted from the property tax revenue for FY 2007 through FY 2009. The property tax mill levy revenue estimate is $180.2 million in FY 2007, $187.6 million in FY 2008, and $195.6 million in FY 2009.

Table 31
Property Tax 95 Mill and 1.5 Mill Levy Revenue Estimate

Source	FY 2007	FY 2008	FY 2009
95 Mills Levied Statewide	$181,760,862	$189,071,470	$196,989,567
1.5 Mill Levy	$1,013,639	$1,050,878	$1,094,833
Property Tax before Protested Taxes	$182,774,501	$190,122,348	$198,084,400
Protested Property Taxes	($2,526,724)	($2,526,724)	($2,526,724)
State Revenue - 95 and 1.5 Mill Levy	$180,247,777	$187,595,624	$195,557,676

Forecast Methodology and Projection - Non-Levy Revenue

Non-levy revenue is revenue that gets paid as part of property taxes, but is not a direct levy on the ad-valorum value of property. These non-levy sources of revenue are taxes paid on coal gross proceeds, federal forest reserve payments, and all other non-levy sources of revenue. Generally, non-levy revenue is distributed to a taxing jurisdiction based on the number of mills levied by that taxing jurisdiction, in relation to the total number of mills levied by all affected taxing jurisdictions. For example, if the total mill levy in a taxing jurisdiction was 350 mills, then the state general fund would receive 27.1% (95/350) of the non-levy revenue. The non-levy revenue sources are categorized and explained in the following order: 1) coal gross proceeds, 2) federal forest reserves, and 3) all other.

Coal Gross Proceeds

Coal gross proceeds are distributed as non-levy revenue based on mill levies, with one significant nuance. In calculating the distribution of coal gross proceeds, 15-23-703, MCA, prescribes that number of statewide mills in 1989 be used. This is significant because in 1989 the total state mills levied was 45, compared to the current total of 95 mills.

Table 32 shows the estimated coal gross proceeds and the 45 mill allocation for the general fund. In CY 1989, the average total mill levy in areas where coal was mined totaled 107.91 mills. The state share is calculated to be 41.7% (45/107.91). Based on estimated total coal gross proceeds (calculated in the coal severance tax revenue estimate), and CY 1989 mill levies, the state portion of non-levy revenue from coal gross proceeds is estimated to be $5.3 million in FY 2007, $5.5 million in FY 2008, and $5.4 million in FY 2009.

Table 32
General Fund Non-Levy Revenue
Coal Gross Proceeds

Fiscal Year	Total Proceeds	45 Mill Share	45 Mill Revenue
A 2006	$11,952,541	41.7%	$4,984,210
F 2007	**$12,637,883**	**41.7%**	**$5,269,997**
F 2008	**$13,229,441**	**41.7%**	**$5,516,677**
F 2009	**$12,939,738**	**41.7%**	**$5,395,871**

Federal Forest Reserves

Table 33 shows general fund revenue from federal forest reserves. Federal forest reserve payments are made by the federal government to counties where revenues were generated on national forests.

Federal forest reserves are a non-levy revenue source based on the 22 and 33 statewide mill levies. By state law, the money derived from federal forest reserves must be allocated two-thirds to the county road fund, and the remaining third is distributed to countywide school levies. This includes any county mills levied for retirement and transportation, along with the 55 mills levied statewide. In FY 2005, it is estimated that the 55 mills represented

61.04% of the total countywide school levies for counties that receive federal forest funds. An estimate of the amount of federal forest reserves allocated to the 55 mills is made by applying 20.35% (61.04% x 33.33% = 20.35%) to the total forest reserve payment.

For FY 2005 and FY 2006 the total payment increased 1.9% and 2.4% respectively. A 2.0% annual growth rate in the total payment is used to project total federal forest reserve payments for FY 2007 through FY 2009. General fund federal forest reserve revenue is forecast to be $2.5 million in FY 2007, $2.6 million in FY 2008, and $2.6 in FY 2009.

Table 33
General Fund Non-Levy Revenue
Federal Forest Reserves

Fiscal Year	Total Payment	% Chg.	55 Mill Share	55 Mill Revenue
A 2004	$11,683,926	1.84%	20.35%	$2,292,701
A 2005	$11,906,450	1.90%	20.35%	$2,422,963
A 2006	$12,192,700	2.40%	20.35%	$2,481,214
F 2007	**$12,436,554**	**2.00%**	20.35%	**$2,530,839**
F 2008	**$12,685,285**	**2.00%**	20.35%	**$2,581,455**
F 2009	$12,938,991	2.00%	20.35%	$2,633,085

All Other Non-Levy Revenue Category

The category all other non-levy revenue consists of a multitude of revenue sources, such as penalties and interest paid on late property tax payments; federal payments in lieu of tax (PILT); county investment earnings; and other miscellaneous sources. In FY 2007 federal BLM grazing permits are no longer included in other non-levy revenue as per 17-3-222, MCA. The total state share of revenue from the remaining sources is forecast to remain steady at the FY 2006 level of $1,374,099 for FY 2007 through FY 2009.

General Fund Property Tax Revenue

The combined mill levy and non-levy revenue property tax estimate is shown in Table 34. Property tax revenue is estimated to be $189 million in FY 2007, $197 million in FY 2008, and $205 million in FY 2009.

Table 34
Summary of General Fund Property Tax Revenue

	FY 2007	FY 2008	FY 2009
Property Tax Mill Levy	$180,247,777	$187,595,624	$195,557,676
Non-Levy Revenue:			
Coal Gross Proceeds	$5,269,997	$5,516,677	$5,395,871
Federal Forest Reserves	$2,530,839	$2,581,455	$2,633,085
All Other	$1,374,099	$1,374,099	$1,374,099
Subtotal Non-Levy Revenue	$9,174,935	$9,472,231	$9,403,055
Total Property Tax Revenue	**$189,422,712**	**$197,067,855**	**$204,960,731**

MOTOR VEHICLE TAXES AND FEES

Revenue Description

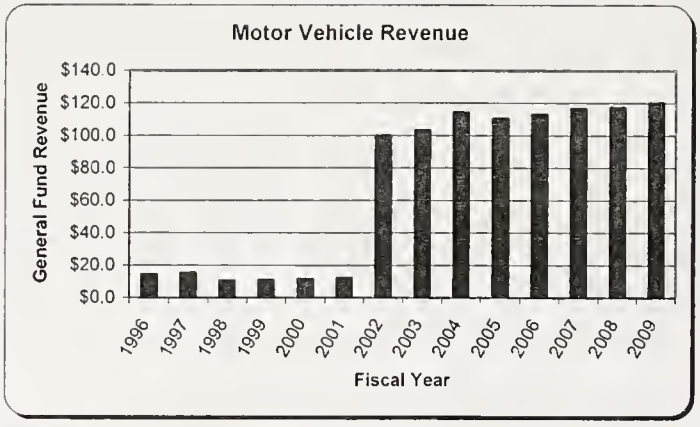
Titles 23 and 61, MCA, provide for multiple fees and fees in lieu of taxes on motor vehicles. Such vehicles include light vehicles, heavy vehicles weighing more than 1 ton, motor homes, trailers, travel trailers, watercraft, motorcycles, snowmobiles, and off-highway vehicles. Fees are based on one or a combination of the following criteria: age, weight, size, or vehicle type.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from motor vehicle taxes and fees for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Motor Vehicle Revenue
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	14.606	2.58%
A 1997	15.588	6.73%
A 1998	10.778	-30.86%
A 1999	11.099	2.98%
A 2000	11.716	5.56%
A 2001	12.534	6.99%
A 2002	100.181	699.27%
A 2003	103.538	3.35%
A 2004	114.331	10.42%
A 2005	110.772	-3.11%
A 2006	113.292	2.28%
F 2007	**116.739**	**3.04%**
F 2008	**117.469**	**0.62%**
F 2009	**120.267**	**2.38%**



Since FY 2002, most motor vehicle revenue has been deposited to the general fund. Fluctuations in revenue since FY 2002 are mostly the result of legislation, as explained in the next section. Motor vehicle revenue is anticipated to increase in FY 2007 for three primary reasons. First, revenue will increase as a result of the issuance of new license plates. Second, proration of taxes and fees has been eliminated, increasing revenue. Third, revenue will increase because registration fees are now required to be paid every time license plates are transferred. After adjusting for these impacts the revenue is expected to show moderate growth in FY 2008 and FY 2009.

Legislative Changes

Legislation has significantly affected motor vehicle taxes and fees. The following is not a comprehensive list of legislation that has affected motor vehicle taxes and fees; it only includes the bills that had significant fiscal impacts since the 2001 Session.

HB 124 (2001 Session) distributed vehicle taxes to the state general fund beginning in FY 2002. Prior to FY 2002 the fees in lieu of taxes on motor vehicles were distributed to nine separate state revenue accounts. The state general fund did not receive revenue from vehicle taxes from FY 1998 through FY 2001. HB 124 also changed the distribution of miscellaneous motor vehicle fees. Most fees retained by local governments and state agencies prior to FY 2002 are now deposited in the state general fund. This change in the distribution of vehicle fees explains the general fund increase of 699% in FY 2002.

HB 247 (2001 Session) reduced the fee in lieu of tax on heavy vehicles by 50% over a three-year period beginning January 1, 2003.

HB 559 (2003 Session) required the permanent registration of watercraft, snowmobiles, motorcycles and quadracycles (except those with specialty license plates), off-highway vehicles, travel trailers, and trailers. Since January 1, 2004, permanently registered vehicles under HB 559 only register and pay taxes and fees when the ownership transfers. HB 559 also increased taxes on light vehicles and replaced the annual fee in lieu of tax on watercraft, snowmobiles, motorcycles and quadracycles, off-highway vehicles, travel trailers, and trailers with a one-time flat fee. The one-time flat fee assessed on these vehicles in tax year 2004 was generally, but not always, higher than the annual fee it replaced; the one-time fee then doubled in calendar year 2005.

SB 118 (2003 Session) increased the fee for newly issued plates from $2 to $5 effective January 1, 2004. SB 118 also delayed the issuance of new replacement plates for all vehicles that are required to have license plates from January 1, 2004 to January 1, 2006. The issuance of replacement plates was estimated to increase general fund revenue by $1.78 million in FY 2006 and $1.65 million in FY 2007.

SB 401 (2003 Session) provided for a new registration fee of $0.50 on all vehicle types except for snowmobiles, off-highway vehicles, watercraft, trailers and semi-trailers registered in other jurisdictions and registered through a proportional registration agreement, and vehicles bearing ex-prisoner of war license plates. The fee was subsequently combined with other universal fees in SB 285 (2005 Session) and is no longer a stand alone fee.

SB 285 (2005 Session) simplified and streamlined motor vehicle statutes by consolidating motor vehicle definitions into one area of law and combining universal fees into a single amount, reducing the absolute number of fees paid. Under this bill exempt vehicles no longer have to pay registration fees. This change results in a decrease in general fund revenue of $750,000 per year.

HB 671 (2005 Session) also significantly revised and streamlined motor vehicle statutes. Beginning January 1, 2006, HB 671 changed the registration period for motor vehicles from being based on when the vehicle was first registered, to when ownership is transferred. The following changes made to statute by HB 671 have considerable impact on tax revenue generated from light motor vehicles:

- Changing the registration period eliminated back taxes, carry forward of taxes paid during the year, and prorating of taxes/fees. Eliminating back taxes is estimated to reduce general fund revenue by approximately $500,000 per year. Changing the registration period, not allowing proration of fees or carry forward of taxes paid is anticipated to increase general fund revenue by approximately $4.3 million per year. The net result is an increase of $3.9 million.

- Eliminating the 60-day stickers, but allowing a 40-day grace period if the owner of a vehicle purchases a temporary registration permit. Revenue received from the temporary registration permits is not a general fund source of revenue, but instead is deposited to the vehicle electronic commerce enterprise account. This change is expected to decrease general fund revenue by approximately $51,000 per year.

- Removing the registration exemption for vehicles that transfer plates from one vehicle to another is no longer allowed. Removing this exemption is expected to generate an additional $1.12 million per year.

Forecast Methodology and Projection Calculation

There are numerous vehicle types that pay motor vehicle taxes: light vehicles, watercraft, snowmobiles, motorcycles and quadracycles, off-highway vehicles, travel trailers, trailers, heavy vehicles, motor homes, mobile homes, manufactured dwellings, and special mobile vehicles. Each vehicle will pay multiple fees and taxes, which depend on the vehicle type, along with other criteria. Each motor vehicle type will pay a different set of taxes/fees than another vehicle type. But in most cases each vehicle type will pay a tax or fee also paid by other vehicle types. For instance, all vehicles will pay title fees when title work is required. However, not all vehicles of the same type will pay the same taxes or fees because many taxes and fees are based on multiple criteria such as age, weight, length, ownership, or use.

A revenue estimation model was developed for motor vehicle taxes and fees. Within this model, each of the motor vehicle taxes/fees that are deposited to the general fund are forecast individually and then summed for total general fund revenue. These are major steps in the model: 1) determine the number of transactions for each tax/fee; 2) multiply the number of transactions by the appropriate tax/fee rate; 3) convert calendar year revenue to revenue by fiscal year; 4) adjust estimate to actual receipts; and 5) add the estimate of the full impact of the 2005 Session motor vehicle legislation.

Step 1: Determine the Number of Transactions for each Tax/Fee

Transactions are the number of times each tax/fee is paid during the year. Some fees might be paid multiple times during the year on the same vehicle. For instance, under the provisions of HB 671 (2005 Session), all fees must be paid each time a vehicle has a change in ownership and a new registration is required. Therefore, if a vehicle changes hands three times during the year, registration fees would also be paid three times, yielding three transactions in the model.

First, a baseline number of transactions is determined for each fee by vehicle type. The baseline number is based on recent historical data for each respective fee code. Adjustments are made to the transaction counts if a fee code has changed or a new fee code has been established. Forecast growth or decline is then applied to estimate the number of future transactions for each fee by vehicle type. Growth is established for each tax/fee by vehicle type using a combination of (1) historical collections for each tax/fee, (2) historical transaction counts, and (3) actual historical vehicle counts.

Table 2 illustrates how growth is applied to the number of motorhome registrations. The baseline number of motorhome registrations is the calendar year 2005 registrations under that fee type. Except for those fee types which were affected by legislative changes, calendar year 2005 registrations are used as the baseline. The baseline number for fee types affected by legislation is adjusted to account for legislative changes before growth is applied. The growth rate for motorhome registrations is the average annual growth rate from January 2001 to June 2006.

Table 2
Motorhome Registration Growth

	Calender Year	Motorhome Registrations	Annual Growth
A	2005	23,227	6.68% (5.5 yr. avg.)
F	2006	24,778	6.68%
F	2007	26,434	6.68%
F	2008	28,199	6.68%
F	2009	30,083	6.68%

Not all growth rates are calculated exactly the same. The growth of light vehicle registrations, which make up approximately 80% of motor vehicle revenue, is calculated using a more complex methodology due to the effects of recent legislation. Factors such as optional permanent registration and fee consolidation must be accounted for and adjusted accordingly when calculating light vehicle revenue growth.

Step 2: Multiply the Number of Transactions by the Appropriate Tax/Fee Rate

The legislature changed many of the tax/fee rates and which types of vehicles pay each tax/fee during the last two legislative sessions. The model accounts for each change in tax/fee in the appropriate calendar year.

There are 17 different vehicle types and approximately 42 tax/fee types which results in about 175 different motor vehicle taxes/fees. The spreadsheet used to forecast motor vehicle revenue lists every vehicle types under each of the tax/fee types. The estimated

number of transactions for each tax/fee is multiplied by the updated tax/fee rates for each year. The model then adds the amount of general fund revenue received from each of the 175 motor vehicle taxes/fees for each calendar year.

Table 3 shows, by the SABHRS short description, the summary of the number of transactions multiplied by the appropriate CY 2005 tax/fee and the projected taxes/fees for CY 2006 through CY 2009. As shown in Table 3, there is a large increase in CY 2006 due to the IRP new plate fee. Also, the 2005 Session motor vehicle legislation changed the motor vehicle laws significantly; and, thus, the taxes/fees are allocated differently among the SABHRS categories for CY 2006 through CY 2009. Many taxes/fees were consolidated resulting in some SABHRS categories showing either large increases or decreases from CY 2005.

Table 3
Calendar Year Data for Motor Vehicle Estimates by SABHRS Description

SABHRS Short Description	CY 2005 Actual	CY 2006 Est.	CY 2007 Est.	CY 2008 Est.	CY 2009 Est.
Registration Fee	$22,937,203	$195,690	$199,618	$203,799	$208,247
Recording Liens	$678,546	$676,381	$676,381	$676,381	$676,381
Titles	$2,486,195	$536,046	$543,244	$550,679	$558,361
Duplicate Titles, Reg & Plates	$193,233	$177,135	$176,779	$176,646	$176,723
Personalized Plates	$1,028,117	$1,046,976	$1,058,075	$1,069,785	$1,082,112
IRP New Plate Fee - $2	$1,101,793	$4,549,812	$1,115,837	$1,130,769	$1,146,556
Pioneer, Vintage & Ham	$4,369	$4,509	$4,511	$4,514	$4,517
State Assigned Vin	$6,888	$34,629	$35,340	$36,074	$36,833
Transit-One Trip Fee	$35,854	$51,756	$52,316	$52,885	$53,465
60-Day Sticker	$28	$19	$19	$19	$19
Large Truck & Semi-Trailers	$5,056,995	$5,808,808	$5,919,304	$6,034,087	$6,153,331
Motor Home, Travel Trl & Campers	$3,825,486	$5,721,790	$6,039,773	$6,377,287	$6,735,591
Lt. Veh, motorcycles, Quadricy	$58,108,378	$87,696,201	$89,239,266	$91,279,046	$93,428,206
Boats/Snowmobiles, Off Highway	$3,074,483	$5,339,353	$5,384,428	$5,430,960	$5,479,002
Collegiate Pl/App. & Mnfg. Fee	$17,132	$17,407	$17,647	$17,898	$18,160
Permanent Registration Fee $2	$74,739	$0	$0	$0	$0
Lien Filing Inform. Tech Fee	$678,406	$0	$0	$0	$0
OHV-Decals	$280	$1,325	$1,325	$1,325	$1,325
Gen Specialty Plate Admin Fee	$227,926	$232,190	$235,464	$238,879	$242,439
MCO Registration	$8,452,996	$0	$0	$0	$0
Transportation Services	$303,907	$0	$0	$0	$0
VA Cemetery License Plate Fees	$554,405	$0	$0	$0	$0
Veterans License Plate Fees	$190,665	$192,943	$194,894	$196,943	$199,093
Boat Registration - Enforcement	$158,398	$0	$0	$0	$0
Snowmobile Registration	$147,819	$49	$49	$49	$49
Auto Dealer Reg. New	NA	$4,025	4,106	4,188	4,271
Auto Dealer Reg. Used	NA	$18,640	19,013	19,393	19,781
Motorcycle Dealer Reg	NA	$3,900	3,978	4,058	4,139
Special Mobile Dealer Reg.	NA	$11,695	11,929	12,167	12,411
Transfer Dealer Cert	NA	$577	589	600	612
Additional Dealer Plates	NA	$100,676	102,690	104,743	106,838
Dealer Application Fee	NA	$7,660	7,813	7,969	8,129
Dealer 20-Day Stickers	NA	$11,605	11,837	12,074	12,315
Transit Permit & Plates	NA	$9,413	9,601	9,793	9,989
Title IT Account	NA	$0	-	-	-
Total	**$109,344,240**	**$112,451,208**	**$111,065,823**	**$113,653,010**	**$116,378,895**

Step 3: Convert Calendar Year Revenue to Fiscal Year Revenue

The model uses calendar year information from the Department of Justice motor vehicle database. Law changes are based on and calculated on a calendar year basis. Estimated calendar year revenue is split into fiscal years based on registration dates of motor vehicles recorded in the motor vehicle database and revenue collections recorded in the state accounting system.

Generally, 52% of motor vehicle payments are received by the state in the second half of the fiscal year. Most vehicle tax and fee collections are distributed to a fiscal year based on 48% of the prior calendar year's revenue and 52% of current calendar year's revenue. For instance, FY 2005 revenue is comprised of 48% calendar year 2004 revenue and 52% calendar year 2005 revenue.

However, exceptions do exist and corresponding adjustments are made within the model. For example, the following vehicle types are adjusted using a different ratio when converting from calendar year to fiscal year:

- Heavy Vehicles. Approximately 89% of heavy vehicle registrations and associated tax collections occur between January 1 and June 30. A ratio of 11% prior calendar year to 89% current calendar year is used to estimate fiscal year revenue.

- Large Trucks, Semi-Trailers, Travel Trailers, and Motor Homes. Approximately 65% of large truck, semi-trailers, travel trailer, and motor home registrations and the associated tax collections occur between the beginning of January and the end of June. A ratio of 35% prior calendar year to 65% current calendar year is used to estimate fiscal year revenue.

Table 4 shows the calendar year to fiscal year conversion by SABRHS codes short description.

Table 4
Conversion of Motor Vehicle Calendar Year Data to Fiscal Year Data

Prior CY%	Cur. CY%	Short Description	FY 2006	FY 2007	FY 2008	FY 2009
47.50%	52.50%	Registration Fee	$ 10,997,909	$ 197,752	$ 201,813	$ 206,134
46.00%	54.00%	Recording Liens	677,376	676,381	676,381	676,381
48.00%	52.00%	Titles	1,472,118	539,789	547,110	554,674
52.00%	48.00%	Duplicate Titles, Reg & Plates	185,506	176,964	176,715	176,683
48.00%	52.00%	Personalized Plates	1,037,924	1,052,748	1,064,164	1,076,195
49.00%	51.00%	IRP New Plate Fee - $2*	2,860,283	2,798,485	1,123,452	1,138,820
50.00%	50.00%	Pioneer, Vintage & Ham	4,439	4,510	4,513	4,516
50.00%	50.00%	State Assigned Vin	20,758	34,984	35,707	36,453
90.00%	10.00%	Transit-One Trip Fee	37,444	51,812	52,373	52,943
		60-Day Sticker	-	-	-	-
68.00%	32.00%	Large Truck & Semi-Trailers	5,297,575	5,844,166	5,956,034	6,072,245
64.00%	36.00%	Motor Home, Tran Travel & Campers	4,508,156	5,836,264	6,161,278	6,506,276
49.00%	51.00%	Lt. Veh, motorcycles, Quadricy	73,641,985	88,483,164	90,279,554	92,375,117
51.50%	48.50%	Boats/Snowmobiles, Off Highway	4,172,945	5,361,214	5,406,996	5,454,260
49.00%	51.00%	Collegiate Pl/App. & Mnfg Fee	17,272	17,529	17,775	18,032
49.00%	51.00%	Permanent Registration Fee $2	36,622	-	-	-
		Lien Filing Inform Tech Fee	-	-	-	-
50.00%	50.00%	OHV-Decals	803	1,325	1,325	1,325
48.00%	52.00%	Gen Specialty Plate Admin Fee	230,143	233,892	237,240	240,730
51.00%	49.00%	MCO Registration	4,311,028	-	-	-
50.50%	49.50%	Transportation Services	153,473	-	-	-
42.00%	0.00%	VA Cemetery License Plate Fees	232,850	-	-	-
48.00%	52.00%	Veterans License Plate Fees	191,849	193,957	195,959	198,061
		Boat Registration - Enforcement	67,319	-	-	-
51.50%	48.50%	Snowmobile Registration	76,151	49	49	49
50.00%	50.00%	Sample License Plates	$1,105	1,127	1,149	1,172
50.00%	50.00%	Auto Dealer Reg New	$4,025	4,106	4,188	4,271
50.00%	50.00%	Auto Dealer Reg Used	$18,640	19,013	19,393	19,781
50.00%	50.00%	Motorcycle Dealer Reg	$3,900	3,978	4,058	4,139
50.00%	50.00%	Special Mobile Dealer Reg	$11,695	11,929	12,167	12,411
50.00%	50.00%	Transfer Dealer Cert	$577	589	600	612
50.00%	50.00%	Additional Dealer Plates	$100,676	102,690	104,743	106,838
50.00%	50.00%	Dealer Application Fee	$7,660	7,813	7,969	8,129
50.00%	50.00%	Dealer 20-Day Stickers	$11,605	11,837	12,074	12,315
50.00%	50.00%	Transit Permit & Plates	$9,413	9,601	9,793	9,989
		Title IT Account	$0	-	-	-
FY Motor Vehicle Revenue before Adjustments			$110,401,223	$111,677,667	$112,314,572	$114,968,552

*New Plates issue in CY 2006 affects revenue growth for FY 2006 through FY 2007

Step 4: Adjust Estimate to Actual Receipts

The motor vehicle data base does not include all receipts that occur in any given fiscal year. Table 5 shows that about 2.5% of the motor vehicle revenue recorded in SABHRS is not accounted for in the motor vehicle database.

Table 5
Comparison of SABHRS Revenue to Motor Vehicle Revenue Estimate

	FY 2003	FY 2004	FY 2005	FY 2006
SABHRS Revenue	$103,537,562	$114,330,455	$110,771,948	$113,292,395
Divide by Motor Vehicle Datatebase Revenue	$100,717,238	$112,719,412	$108,045,376	$110,401,223
% SABHRSRevenue Exceeds Motor Vehicle Revenue	2.72%	1.41%	2.46%	2.55%

The motor vehicle revenue estimate is based on the motor vehicle database. Therefore, as shown in Table 6, the basic revenue estimate is increased by 2.5% to reflect actual revenue.

Table 6
Adjusting Model Revenue to SABHRS Revenue

	FY 2006	FY 2007	FY 2008	FY 2009
Motor Vehicle Datebase Revenue Estimate	$110,401,223	$ 111,677,667	$112,314,572	$114,968,552
Times % SABHRS Revenue Exceed Database	X 1.025	X 1.025	X 1.025	X 1.025
% SABHRS exceeds Motor Vehicle Database	$113,161,253	$114,469,609	$115,122,437	$117,842,766

Step 5: Adjust Revenue Estimate for the Full Impact of 2005 Motor Vehicle Legislation

Most of the motor vehicle legislation passed during the 2005 Session was effective for calendar year 2006 and, thus, impacted only the second half of FY 2006. The revenue estimate must be adjusted to reflect a full year's impact from the 2005 Session legislation. These adjustments are shown in Table 7.

Table 7
2005 Session Motor Vehicle Legislation - Adjustments for Full Year Impact

Legislation Change	FY 2006	FY 2007	FY 2008	FY 2009
Change Assessment Date to when vehicle changes hands				
Now Must Pay Full Year Taxes When Registered 1st time	$1,600,743	$3,167,496	$3,199,729	$3,232,290
Transfer of Plates - Now Must Pay Full Registration	559,396	1,132,321	1,168,933	1,206,730
Eliminating Prorating of fees	535,500	1,057,840	1,065,739	1,073,696
Fleet Vehicle Additional $19 00 to General Fund	17,100	17,100	17,100	17,100
Remove 60-day Stickers	(25,908)	(50,800)	(50,800)	(50,800)
Exempt Vehicles No Longer Pay Registration Fee	(382,500)	(750,000)	(750,000)	(750,000)
2005 Session Legislation Impacts	$2,304,331	$4,573,957	$4,650,701	$4,729,016
Less amount in FY 2006 BASE (absorbed in model)	($2,304,331)	($2,304,331)	($2,304,331)	($2,304,331)
Legislation Impact not in FY 2006 BASE	($0)	$2,269,626	$2,346,370	$2,424,686

Step 6: Calculate General Fund Revenue

Table 8 shows the total general fund revenue estimate for FY 2007 through FY 2009, which is estimated to be $116.739 million in FY 2007, $117.469 in FY 2008, and $120.267 million in FY 2009.

Table 8
Motor Vehicle General Fund Revenue Estimate

Components of Estimate	FY 2007	FY 2008	FY 2009
Base Motor Vehicle Revenue Estimate	$114,469,609	$115,122,437	$117,842,766
Add: 2005 Session Legislation Adjustments	$2,269,626	$2,346,370	$2,424,686
Motor Vehicle General Fund Revenue	**$116,739,235**	**$117,468,807**	**$120,267,452**

CORPORATION LICENSE TAX

Revenue Description

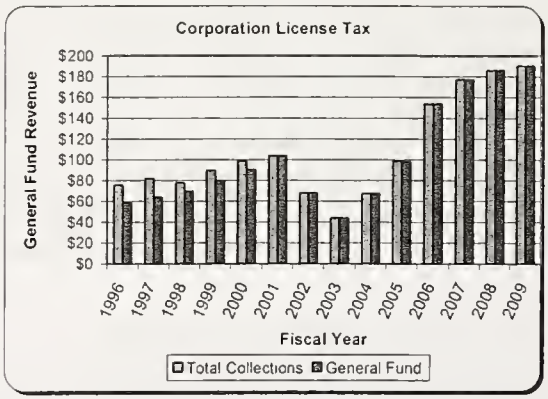
The corporation license tax is a tax on corporate income apportioned to Montana. The tax is levied at a flat rate of 6.75% of net income; however corporations making a "water's edge" election are taxed at 7%. Since FY 2001, revenues have been deposited 100% in the general fund with the exception that, in FY 2005, $375,000 of the tax collected from water's-edge corporations was deposited in the state special revenue fund to the credit of the Department of Public Health and Human Services (15-31-121, MCA).

Historical and Projected Revenue

Table 1 shows total and general fund revenue from corporation license taxes for FY 1996 through FY 2006 and projections for FY 2007 through FY 2009.

Table 1
Corporation License Tax - General Fund Collections
($ millions)

Fiscal Year	Total Collections	Percent Change	General Fund	Percent Change
A 1996	$75.762	0.3%	$59.360	2.5%
A 1997	$81.999	8.2%	$64.079	7.9%
A 1998	$77.928	-5.0%	$69.725	8.8%
A 1999	$89.625	15.0%	$80.142	14.9%
A 2000	$99.089	10.6%	$90.683	13.2%
A 2001	$103.670	4.6%	$103.670	14.3%
A 2002	$68.173	-34.2%	$68.173	-34.2%
A 2003	$44.138	-35.3%	$44.138	-35.3%
A 2004	$67.723	53.4%	$67.723	53.4%
A 2005	$98.589	45.6%	$98.214	45.0%
A 2006	$153.675	55.9%	$153.675	56.5%
F 2007	**$176.963**	**15.2%**	**$176.963**	**15.2%**
F 2008	**$185.933**	**5.1%**	**$185.933**	**5.1%**
F 2009	**$190.314**	**2.4%**	**$190.314**	**2.4%**



Revenue grew fairly steadily during the second half of the 1990s as the national economy experienced a prolonged expansion. Revenue dropped by about 34% in FY 2002 and dropped by 35% in FY 2003. In FY 2004 revenue increased 53%. Revenue increased by 45% in FY 2005, bringing revenue collections almost to the FY 2000 level. In FY 2006 revenue increased by an unprecedented 56.5%, bringing total corporate revenue collections to $153.675 million. Revenue is projected to continue growing in FY 2007 through FY 2009, but at a much slower rate than over the past three fiscal years. In FY 2007 revenue is forecast to increase by 15.2%. In FY 2008 and FY 2009 revenue is forecast to increase by 5.1% and 2.4% respectively as growth in the economy and national corporate profits slows.

As can be seen in the graph in Table 1, corporation license tax is more volatile and less predictable than most revenue sources. This volatility is also apparent when corporation license tax revenue is broken down into its components: quarterly estimated payments; payments with returns; audit revenue, including penalties and interest; and refunds.

Table 2 shows FY 2001 through FY 2006 quarterly estimated payments, payments with returns or extensions, and payments of audit revenue, including penalties and interest. It also shows total collections, which is the sum of the three types of payments. The two rightmost columns show refunds and net revenue, which is total collections less refunds. The percent change column for each revenue category and refunds shows wide variations between years and no consistent trend over time.

Table 2
Corporation License Tax Collections and Refunds
FY 2001 through FY 2006

	Quarterly Estimated Payments		Payments with Returns or Extensions		Audit, Penalty and Interest		Total Collections		Refunds		Net Revenue	
Fiscal Year	$ million	% Chg	$ million	% Chg	$ million	% Chg	$ million	% Chg	$ million	% Chg	$ million	% Chg
2001	62.945	-27%	50.038	279%	0.000	N/A	112.983	12%	-9.312	-17%	103.670	16%
2002	46.986	-25%	31.879	-36%	5.916	N/A	84.780	-25%	-16.607	78%	68.173	-34%
2003	46.788	0%	18.723	-41%	8.078	37%	73.589	-13%	-29.452	77%	44.138	-35%
2004	50.442	8%	23.222	24%	14.174	75%	87.838	19%	-20.115	-32%	67.723	53%
2005	61.916	23%	36.035	55%	10.597	-25%	108.547	24%	-10.333	-49%	98.214	45%
2006	109.666	77%	44.164	23%	10.830	2%	164.660	52%	-10.985	6%	153.675	56%

[1]FY 2001 audit, penalty and interest collections were $9,677,154 FY 2005 revenue is general fund only

Corporations expecting to have tax liability of at least $5,000 are required to make quarterly estimated payments. Returns are due five months after the end of the tax year, but a corporation may have an automatic six-month extension and the Department of Revenue may grant additional extensions. Corporations taking an extension and expecting to have tax liability greater than their estimated payments generally make a tentative payment when their return is due. When a corporation files its return, it makes a final payment if its liability is more than the sum of its estimated and tentative payments. It claims a refund if its liability is less than it has paid.

Payments and refunds for a corporation's tax year may be spread over two or more fiscal years. Corporation license tax is paid for a twelve-month period. Many corporations start their tax year on January 1, but some start their tax year later in the calendar year. Thus collections during a fiscal year will be of taxes from at least four calendar years. For example, collections in FY 2005 would include quarterly estimated payments for parts of calendar years 2006 and 2005, and payments and refunds based on returns for tax years beginning in 2005, 2004, and the last months of 2003.
The Department of Revenue audits a percentage of corporate taxpayers every year and collects revenue from audits every year. Each audit typically covers returns for several past years for the purpose of verifying and correcting the income and deductions reported

on those returns. When the department determines that a return was incorrect, it notifies the taxpayer that additional tax, possibly with penalties and interest, is due or it issues a refund. Audit revenue for a year depends on the number of audits and the corrections made to returns from previous years, not on current economic conditions.

A corporation's profits during a year depend on current operations and one-time transactions and accounting adjustments. When a firm sells assets, it may have a capital gain or loss. When a firm has assets that have lost value, it may write off that loss against current revenues. In either case, the firm's profits, which are the base for corporate tax, are affected by factors other than current operations. When a corporation has losses in one year, it can carry those losses back to the three previous years and claim a refund of taxes paid in those years. If profits in the three previous years were less than the current loss, it can carry the loss forward up to seven future tax years. In this case, corporate tax receipts in one year are affected by economic conditions in other years. The minimum corporation tax payment for a year is $50. When a corporation has a loss, it must still pay the minimum.

The average growth of corporation tax revenue is correlated with measures of state and national economic performance. This makes it possible to predict the average growth of revenues. However, there are year-to-year variations in revenues due to a number of factors, including changes in federal and state law or unusual events affecting a few large taxpayers that reduce the accuracy of predictions and make it difficult to predict precisely whether revenues will grow faster or slower than average in any year.

Changes in federal tax laws affect corporation license tax revenue because the Montana tax base is Montana's share of taxable profits for federal corporate income tax. The Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 allowed first year depreciation to be increased by 30% for purchases between September 10, 2001 and May 5, 2003 and by up to 50% for purchases between May 6, 2003 and December 31, 2004. This temporary change in accounting rules shifts corporate profits and taxes from calendar years 2001 through 2004 to later years.

Forecast Methodology

Corporation license tax revenue is estimated using the Bureau of Economic Analysis (U.S. Department of Commerce) data on national corporate profits before taxes (shown in Table 3) and Global Insight October 2006 forecast of the same for FY 2007 through FY 2009. National profits before taxes from the **prior** year have a relatively good level of predictive power for Montana corporate tax revenues. Table 3 shows national pretax profits and total corporate revenues.

Total corporate license tax collections, including both general fund and non-general fund revenues, for FY 1993 through FY 2006 were regressed against prior year national corporate profits before taxes to produce an estimate of the relationship. The regression model also incorporates a time trend and a qualitative variable indicating the period over which the depreciation rules of the Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 were in effect. The model is then used to estimate revenues based upon the Global Insight forecast of national before-tax corporate profits.

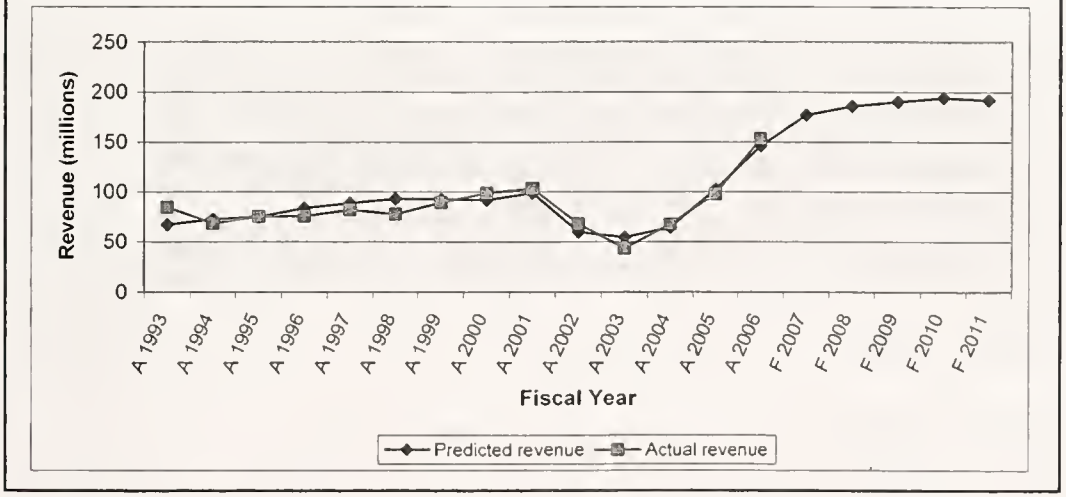
Graph 1 provides a comparison of actual total corporate revenues for FY 1993 through FY 2006 with estimated revenues over the same time period produced by the model. Also shown on the graph are forecast collections for FY 2007 through FY 2011.

Table 3
National Pre-tax Corporate Profits and Total Montana Corporate Tax Revenue
FY 1993 through FY 2006

Fiscal Year	National Pre-tax Profits (billions)	Total Collections (millions)
1993	$474.125	$85.054
1994	$538.050	$68.872
1995	$636.025	$75.520
1996	$707.425	$75.762
1997	$758.625	$81.999
1998	$770.600	$77.928
1999	$736.125	$89.625
2000	$791.725	$99.089
2001	$755.750	$103.670
2002	$689.475	$68.173
2003	$837.100	$44.138
2004	$1,039.550	$67.723
2005	$1,335.325	$98.589
2006	$1,656.550	$153.675
average	$837.604	$84.987

As shown in Graph 1, the model produces fairly accurate estimates for the period from FY 1999 through FY 2006 despite the relatively large deviation from trend after FY 2001.

Graph 1
Comparison of Actual and Predicted Corporate License Tax Revenue
FY 1993 to FY 2011



The model overestimates collections somewhat in FY 1998 and underestimates collections in FY 1993. Some of the difference can be attributed to one-time revenue such as an

unusually large payment by one company in FY 1993. Overall, however, the model demonstrates a relatively good fit of predicted to actual collections. In the model statistics, one measure by which estimates are judged, the adjusted R^2 is .875 (1.0 indicates perfect correlation).

Table 4
Corporation License Tax Revenue
Actual FY 2006 and Forecast FY 2007 to FY 2009
($ millions)

Revenue Source	Actual FY 2006	Forecast FY 2007	Forecast FY 2008	Forecast FY 2009
Corporate Tax Revenue	$ 153.675	$ 176.963	$ 185.933	$ 190.314

Total corporate tax collections are projected to be $176.963 million in FY 2007, $185.933 million in FY 2008, and $190.314 million in FY 2009.

Data Sources

Data was obtained from SABHRS, the October 2006 Global Insight forecast, and the July (2006) Revised *Combined Effects of the Tax Acts of 2002 and 2003 on Selected Measures of Corporate Profits* by the Bureau of Economic Analysis, U.S. Dept. of Commerce.

Risk Calculation

The volatility exhibited by corporate tax revenues necessitates a discussion of risk inherent in the estimates. It is possible that Montana may receive revenues less than what is estimated for several reasons. First, the estimate relies very heavily on the Global Insight baseline forecast of national corporate profits, before taxes. If economic conditions change significantly over the next months, Global Insight's forecast will likely change as well. Global Insight includes both a more optimistic and a more pessimistic scenario in its forecast service. The more pessimistic scenario has higher energy prices, a sharper downturn in the housing market, higher interest rates, and reduced consumer spending among other things. For the October forecast Global Insight assigns a probability of 25% to the more pessimistic scenario occurring. If actual economic conditions over the next several years are more in accord with the pessimistic scenario, then actual revenues from corporate tax collections for FY 2007 through FY 2009 will likely be lower than estimated.

History shows that corporate tax revenues can change significantly and can do so quite rapidly. One factor that can accelerate and deepen downward turns in revenues is the ability of corporations to claim losses against income in other years through the carry back and forward attributes of the tax code. If the declines in revenue seen in FY 2002 and FY 2003 were repeated in FY 2008 and FY 2009, corporate revenues could decline by as much as $115 million.

Table 5
Comparison of Estimated Corporate Revenues and Revenues based on Percent Declines from FY 2002 and FY 2003

Fiscal Year	Current Best Estimate General Fund	Current Best Estimate Percent Change	If History Repeats Itself General Fund	If History Repeats Itself Percent Change	Change in Revenue
A 2006	$153.675	-	$153.675	-	
F 2007	**$176.963**	**15.2%**	**$176.963**	**15.2%**	**$0.000**
F 2008	**$185.933**	**5.1%**	**$116.370**	**-34.2%**	**-$69.563**
F 2009	**$190.314**	**2.4%**	**$75.342**	**-35.3%**	**-$114.972**

Finally, in addition to economic conditions, another factor that can change quickly is federal legislation. As noted above, the Montana tax base is Montana's share of taxable profits for federal corporate income tax. It is not possible to anticipate all the possible changes to federal tax laws and rules between now and the end of FY 2009 that will affect the collection of corporate tax revenue in Montana. However, it should also be noted that it is probably more likely that Congress will provide temporary, or even permanent, tax reductions for corporations if there is an economic downturn.

INSURANCE PREMIUMS TAX

Revenue Description

Montana levies a tax of 2.75% on net premiums on all insurance policies (33-2-705, MCA) except health service corporations, which are exempt from all premium taxes under 33-30-203, MCA. There is an additional tax of 2.5% on premiums for fire and casualty insurance on property, insurance of property in transit, insurance against loss or damage to motor vehicles, crop insurance, insurance against water damage, insurance against property damage from vehicle accidents, and insurance against theft of a vehicle (50-3-109, MCA).

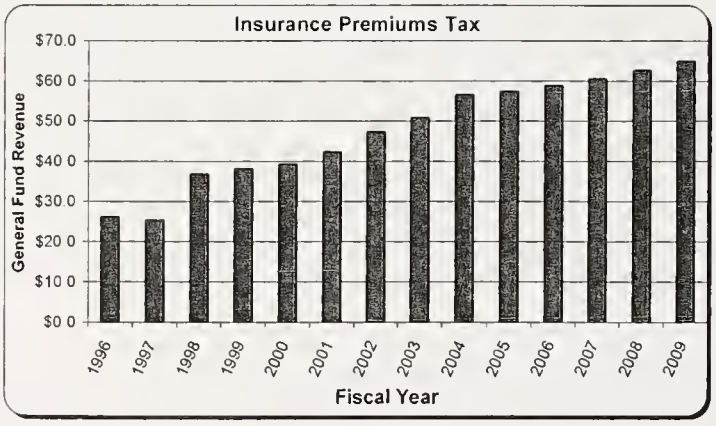
Section 33-2-712, MCA, provides for a genetics program fee for each Montana resident insured under any individual or group disability or health insurance policy. The fee is used to fund the statewide genetics program established in 50-19-211, MCA. The 2005 Legislature passed SB 275 which increased the fee from $0.70 to $1.00 until June 30, 2007, and directed that the fee revenues be deposited in a state special revenue account instead of the general fund as had been the case in prior years.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from the insurance premium tax for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Insurance Premiums Tax - General Fund Collections
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	$26.166	6.37%
A 1997	$25.342	-3.15%
A 1998	$36.813	45.26%
A 1999	$38.137	3.60%
A 2000	$39.334	3.14%
A 2001	$42.298	7.54%
A 2002	$47.291	11.80%
A 2003	$50.810	7.44%
A 2004	$56.527	11.25%
A 2005	$57.308	1.38%
A 2006	$58.795	2.59%
F 2007	**$60.556**	**2.99%**
F 2008	**$62.675**	**3.50%**
F 2009	**$64.871**	**3.50%**



Prior to FY 1998, a portion of the premiums tax revenue was paid into pension and benefit funds for police officers and firefighters. Beginning in FY 1998, all premiums

taxes are deposited in the general fund, explaining the 45.26% increase in revenue shown in Table 1 for that year. In April 2004 a large health service corporation, which does not pay the insurance premium tax, assumed a company previously paying the insurance premium tax. The State Auditor's Office estimates that the change represents a decline in annual net revenues of about $530,000 per year.

Section 50-19-211, MCA, provides for a voluntary genetics program designed to offer testing, counseling, and education to parents and prospective parents. A fee, paid by insurers or health service corporations, for each Montana resident insured under any individual or group disability or health insurance policy, funds this program. In the 2005 Session (SB 275), the Legislature changed the fee amount and the disposition of the fee revenues from the general fund to a state special revenue fund (50-19-212, MCA). Prior to enactment of SB 275, genetics fee revenue was included in general fund insurance premium revenue. In FY 2005 these fees were $0.635 million.

The forecast anticipates relatively low, but steady growth in insurance tax revenue in FY 2007, increasing by 3.78% to $61.0 million. Insurance tax revenues are projected to increase by 4.25% to $63.6 million in FY 2008 and increase by 4.26% to $66.3 million in FY 2009.

Forecast Methodology and Projection Calculation

Insurance premiums tax receipts depend on the value of insurance premiums, and on deductions that insurance companies are allowed to take against their tax liabilities. Insurance premiums taxes are forecast using the following procedure. First insurance premiums taxes before offsets and without the genetics fee revenues are calculated. Then offsets to insurance premiums taxes are forecast. Next the surtax on fire and casualty insurance is projected. Finally net insurance premiums tax revenue, after offsets are taken out and revenues from the surtax and licenses and permits are included, is calculated.

Insurance Premiums Tax Growth

Total premiums depend on the amount of insurance coverage that consumers and businesses buy, and the price that insurance companies charge for that coverage. The price of insurance is influenced by insurance companies' investment earnings. Insurance companies set their rates so that the sum of premiums and investment earnings will pay the average level of claims, along with dividends to the owners. Insurance companies maintain reserves to cover unexpected high claims. They invest these reserves in corporate and government securities, mortgages, real estate, and other assets. When income from these investments is high, insurance companies can reduce their rates. When investment income is low, insurance companies must raise their rates.

The dramatic run-up in the price of stocks from the mid-1990s through 2000 gave insurance companies unexpected capital gains, which allowed them to hold down rates.

In FY 1999, premiums tax revenue decreased, as capital gains from the rising stock market allowed insurance companies to reduce premiums. Average stock prices grew slower in FY 2000, peaked and began to fall in FY 2001, and plunged in FY 2002. As the stock market slowed, insurance companies were no longer able to reduce rates, and total premiums began to grow again. Beginning in FY 2002, insurance companies were forced to raise their rates, and premiums tax revenues grew faster than normal. Insurance premiums tax, before any tax offsets and without genetics fee revenues, grew between 8.7% and 12.7% annually from FY 2002 to FY 2004. However, the stock market recovery and recent increases in interest rates should mean that earnings from other sources will mitigate upward pressures on premiums.

Table 2 shows that the annual growth rates for the base premiums tax, before offsets and without genetics fee revenues, for FY 1998 through FY 2006. The average annual growth rate was 5.88% over that period. However, the growth rate in premiums taxes declined to 3.89% in FY 2005 and 2.54% in FY 2006, reflecting both the effect of better performance of other earnings sources and the reduction in revenues due to the aforementioned health service corporation assuming another insurance business. The average growth rate for FY 2005 through FY 2006 is 3.21%.

Table 2
Insurance Premiums Tax Growth
Before Offsets & without Genetics Fees

Fiscal Year	Revenues without Genetics Fee ($ million)	% Growth
A 1998	$35.636	4.39%
A 1999	$35.095	-1.52%
A 2000	$37.291	6.26%
A 2001	$39.239	5.22%
A 2002	$44.233	12.73%
A 2003	$48.067	8.67%
A 2004	$52.836	9.92%
A 2005	$54.891	3.89%
A 2006	$56.283	2.54%
Avg Growth (FY05, FY06)		**3.21%**
F 2007	$58.091	3.21%
F 2008	$59.956	3.21%
F 2009	$61.881	3.21%

The stock market and interest rates are expected to continue to provide earnings potential in the forecast period. With continued performance in other earnings, it is expected that insurance companies will not have to raise premiums substantially as they have in past periods when other earnings declined. Therefore, the average growth of 3.21% for the two most recent fiscal years, FY 2005 and FY 2006, is used to estimate base premiums tax for FY 2007 through FY 2009.

Insurance Premiums Tax - Offsets

Companies are allowed to deduct amounts they are assessed by the Montana Life and Health Insurance Guarantee Association (MLHIGA) and the Montana Comprehensive Health Association (MCHA).

MLHIGA protects policyholders against insurance company insolvencies. When an insurance company doing business in Montana becomes insolvent, MLHIGA covers its

liabilities by making assessments against all the other insurance companies. These assessments may last for up to five years. MLHIGA assessments were unusually high in the mid-1990s because of the bankruptcy of a single large insurance company. As Table 3 shows, MLHIGA assessments have been decreasing since FY 1998, and the state Auditor's Office expects them to continue to decrease to $0.165 million during the forecast period.

MCHA subsidizes health insurance for high-risk individuals, such as people with serious pre-existing conditions. In most years, the sum of premiums paid by high-risk policyholders is less than their total claims. MCHA reimburses companies that insure high-risk individuals for their losses on these policies. It covers these losses by making assessments against the other insurance companies. Blue Cross Blue Shield (BCBS) administers the MCHA program; BCBS anticipates the amount of MCHA reimbursements to be $1,195,000 in FY 2007. BCBS indicates that the formula underlying the offsets has been revised, and, therefore, annual offsets are not expected to vary as much as they have in the past. FY 2008 and FY 2009 offsets are estimated to be the same as in FY 2007.

As Table 3 shows, total offsets are projected at $1.360 million for FY 2007 through FY 2009.

Table 3
MLHIGA and MCHA Offsets
($ millions)

Fiscal Year	MHLIGA Offsets	MCHA Offsets	Total Offsets
A 1998	$2.801	$0.229	$3.030
A 1999	$1.936	$0.702	$2.638
A 2000	$1.354	$0.729	$2.083
A 2001	$0.587	$0.274	$0.861
A 2002	$0.259	$0.481	$0.740
A 2003	$0.374	$1.089	$1.463
A 2004	$0.368	$0.793	$1.161
A 2005	$0.382	$1.268	$1.650
A 2006	$0.311	$0.805	$1.116
F 2007	**$0.165**	**$ 1.195**	**$1.360**
F 2008	**$0.165**	**$1.195**	**$1.360**
F 2009	**$0.165**	**$1.195**	**$1.360**

Surtax on Fire and Casualty Insurance

Table 4 shows actual and projected surtax revenue collections on fire and casualty insurance for FY 2000 through FY 2009. As Table 4 illustrates, surtax revenue, like the base insurance premium tax, grew significantly from FY 2000 to FY 2006. The average annual growth rate was 9.2% over the entire period. However, the high average growth rate is based on a period that includes unusually high increases in surtax revenues – 14% in FY 2003 and 13.6% in FY 2004. For purposes of the forecast these two unusually high growth rate years are excluded from the average growth rate applied to future years.

Table 4
Insurance Premiums
Fire/Casualty Surtax

Fiscal Year	Surtax ($ millions)	% Growth
A 2000	$2.012	
A 2001	$2.206	9.63%
A 2002	$2.367	7.34%
A 2003	$2.701	14 09%
A 2004	$3.070	13.65%
A 2005	$3.214	4 71%
A 2006	$3.412	6.14%
Avg Growth (FY01, FY02, FY05, FY06)		6.96%
F 2007	**$3.649**	**6.96%**
F 2008	**$3.903**	**6.96%**
F 2009	**$4.175**	**6.96%**

The forecast assumes that growth in surtax revenue on fire and casualty insurance will follow the average annual growth rate of 6.96% for FY 2000 through FY 2006 excluding FY 2003 and FY 2004. Using this growth rates yields estimated surtax revenue of $3.649 million in FY 2007, $3.903 million in FY 2008, and $4.175 million in FY 2009.

General Fund Revenue

Table 5 shows general fund revenue forecasts for FY 2007 through FY 2009. Total revenue to the general fund is the sum of insurance premiums tax minus the offsets, plus the surtax and various insurance licenses and permits.

Table 5
Total Insurance Premiums Tax General Fund Collections
($ millions)

Fiscal Year	Insurance Premiums Tax		Offsets		Fire/Casualty Surtax		Licenses & Permits		General Fund Revenue
F 2007	$58.091	-	$1.360	+	$3.649	+	$0.176	=	$60.556
F 2008	$59.956	-	$1.360	+	$3.903	+	$0.176	=	$62.675
F 2009	$61.881	-	$1.360	+	$4.175	+	$0.176	=	$64.871

The amount of revenue received for various insurance licenses and permits has averaged approximately $176,000 per year from FY 2002 through FY 2006. For purposes of this analysis, the average of $176,000 per year is used to estimate various insurance licenses and permits over the forecast period.

Total general fund insurance premiums tax revenue is projected to be $61.0 million in FY 2007, $63.6 million in FY 2008, and $66.3 million in FY 2009.

Data Sources

Information on MLHIGA and MCHA assessments was provided by the State Auditor's Office. Additional information on MCHA assessments was provided by Blue Cross Blue Shield. Revenue data is from the state accounting system, SABHRS, the MTGL0109 reports.

VIDEO GAMBLING TAX

Revenue Description

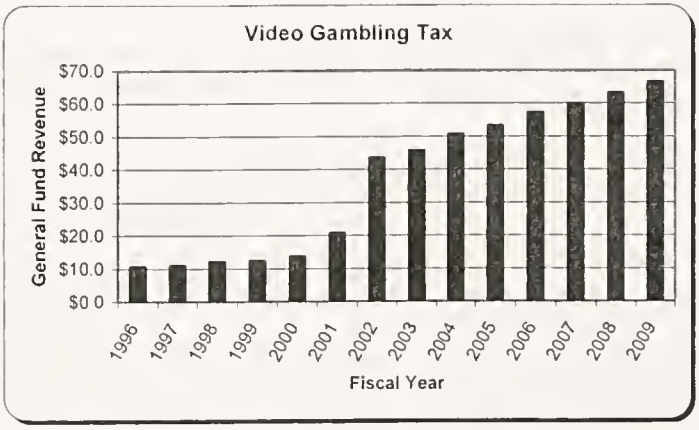
Section 23-5-610, MCA, establishes a 15% tax on the gross machine income received from video gambling machines. Gross machine income is the difference between total receipts from a machine and cash payouts. All video gambling tax collections are deposited in the state general fund.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from the video gambling tax for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Video Gambling Tax General Fund Revenue
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	10.666	-
A 1997	11.073	3.82%
A 1998	12.256	10.68%
A 1999	12.559	2.47%
A 2000	13.851	10.29%
A 2001	20.891	50.83%
A 2002	43.666	109.01%
A 2003	45.794	4.87%
A 2004	50.749	10.82%
A 2005	53.361	5.15%
A 2006	57.277	7.34%
F 2007	**60.002**	**4.76%**
F 2008	**63.322**	**5.53%**
F 2009	**66.641**	**5.24%**



HB 124 (2001 Session) changed the distribution of the video gambling tax. Prior to the fourth quarter of FY 2001, two-thirds of the video gambling tax was distributed to the county or municipal government where the machine was located, and one-third of the tax was deposited in the state general fund. Beginning in fourth quarter FY 2001, all video gambling tax collections are deposited in the state general fund. This change in distribution of the tax explains the large increase in general fund revenue in FY 2001 and FY 2002.

HB 758 (2003 Session) added an additional surcharge fee of $10 on each video gambling machine for establishments with less than 20 machines and $20 per machine

for establishments with 20 or more machines. HB 758 allocated all video gambling surcharge revenue to the general fund. Two years later, HB 802 (2005 session) eliminated the video gambling surcharge. Thus, the video gambling surcharge was only collected for FY 2004 and FY 2005. The surcharge amount was $273,275 in FY 2004 and $274,340 in FY 2005. The FY 2006 general fund revenue is overstated by $461,281 as actual receipts were lower than the fourth quarter revenue accrued for accounting purposes.

As Table 1 shows, general fund revenues from the video gambling tax have increased each year since FY 1996. Video gambling tax revenue is estimated to increase 4.76% in FY 2007, 5.53% in FY 2008, and 5.24% in FY 2009.

Forecast Methodology and Projection Calculation

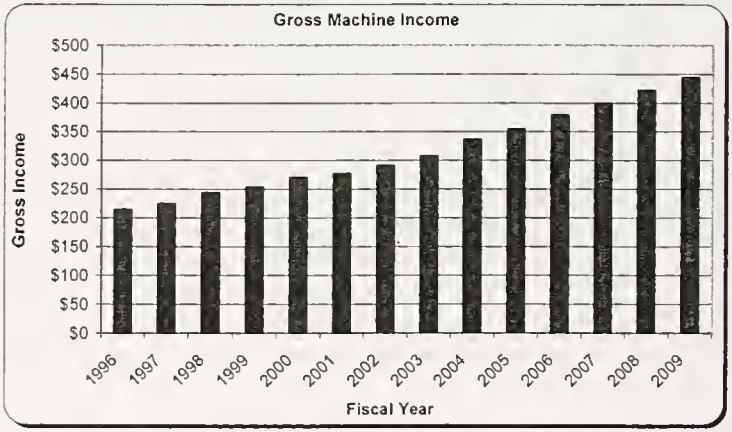
The video gambling tax forecast entails two steps. First, total video gambling machine income is calculated. Second, the video gambling tax rate of 15% is applied to machine income.

Calculate Machine Income

Machine income is the difference between total receipts from all video gambling machines and cash payouts. Table 2 shows actual and projected machine income for FY 1996 through FY 2009.

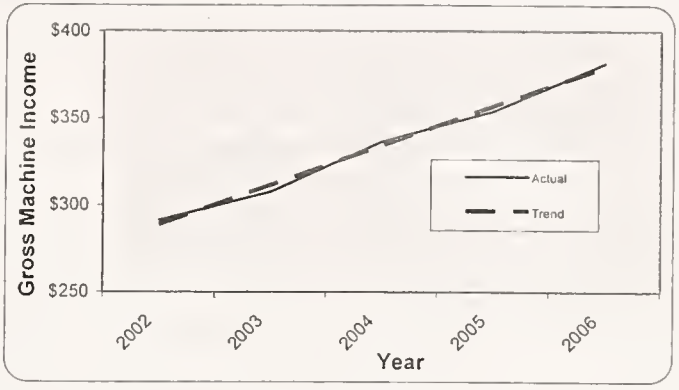
Table 2
Gambling Machine Income
($ millions)

Fiscal Year	Machine Income	Percent Change
A 1996	$214.7	2.71%
A 1997	$225.4	5.00%
A 1998	$244.5	8.48%
A 1999	$253.5	3.68%
A 2000	$270.5	6.70%
A 2001	$277.2	2.48%
A 2002	$291.4	5.11%
A 2003	$307.6	5.56%
A 2004	$336.5	9.41%
A 2005	$353.9	5.17%
A 2006	$378.8	7.04%
F 2007	**$400.0**	**5.59%**
F 2008	**$422.1**	**5.53%**
F 2009	**$444.3**	**5.24%**



As Table 2 illustrates, machine income has increased steadily since FY 1996. Since FY 2002, there has been a clear positive trend in video gambling machine income. The increasing popularity of new multi-gaming machines has contributed to this trend. A linear regression was estimated using the trend over time of machine income. The regression, represented in Graph 1 by the dashed line, is highly correlated with actual machine income, represented in Graph 1 by the solid line, as evidenced by the R-squared value of 0.99. An R-squared value of 1.0 would represent perfect correlation between the predicted and actual machine income. The linear regression model forecasts machine income to be $400 million in FY 2007, $422 million in FY 2008, and $444 million in FY 2009. This projection yields approximately 5.5% income growth each year.

Graph 1
Machine Income
FY 2002 - FY 2006 ($ millions)



Calculate Video Gambling Tax Revenue

Table 3 shows the general fund revenue calculation for the video gambling machine tax for FY 2007 through FY 2009. Video gambling machine income from Table 2, multiplied by the tax rate of 15% provides tax collections. All video gambling tax revenue is deposited in the general fund. General fund video gambling tax revenue is projected to be $60.002 million in FY 2007, $63.332 million in FY 2008, and $66.641 million in FY 2009.

Table 3
Video Gambling Tax Revenue
($ millions)

Fiscal Year	Machine Income		Tax Rate		**Tax Revenue**
2007	$ 400.0	x	15%	=	**$ 60.002**
2008	$ 422.1	x	15%	=	**$ 63.322**
2009	$ 444.3	x	15%	=	**$ 66.641**

Data Sources

The general fund revenue data is obtained from SABHRS Report MTGL0109. The Department of Justice provided the data on video gambling income.

OIL AND NATURAL GAS PRODUCTION TAX

Revenue Description

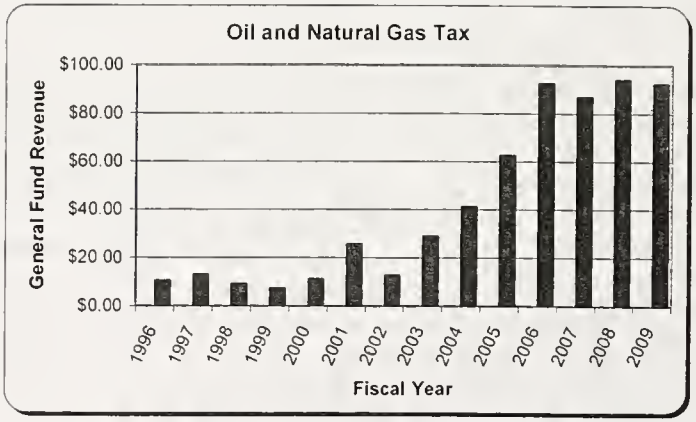
Montana taxes the gross value of oil and natural gas production. Tax rates depend on the type of production, with incentives for new production, horizontal wells, secondary and tertiary production, and stripper wells. Working interest owners, who share in a well's costs, pay lower rates than royalty recipients, who do not share in a well's costs. Revenues are distributed to a variety of state and local accounts. In FY 2006, about 45% of revenue from the oil and natural gas production tax was deposited in the general fund.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from the oil and gas production tax for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Oil and Natural Gas Production Tax Collections
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	$10.666	-17.73%
A 1997	$13.283	24.54%
A 1998	$9.120	-31.34%
A 1999	$7.506	-17.70%
A 2000	$11.363	51.39%
A 2001	$25.792	126.99%
A 2002	$12.902	-49.97%
A 2003	$29.086	125.43%
A 2004	$41.324	42.07%
A 2005	$62.626	51.55%
A 2006	$92.563	47.80%
F 2007	**$86.895**	**-6.12%**
F 2008	**$94.080**	**8.27%**
F 2009	**$92.471**	**-1.71%**



General fund receipts from the oil and natural gas tax averaged $12.9 million for FY 1994 through FY 2002. Receipts in FY 2001 were higher primarily because they included back taxes from previous years.

General fund revenue in FY 2003 and FY 2004 was $29.1 million and $41.3 million respectively. There are two reasons for this higher general fund revenue. One is the change in the tax distribution due to HB 748 (2003 Session). Before HB 748, the share of oil and natural gas tax the state returned to the counties was distributed in proportion to mill

levies. Because the state levies 95 mills to support schools, part of the state's share of oil and natural gas tax was paid to the state as non-levy property tax revenue.

Beginning with calendar year 2003, rather than send this revenue to the county for the county to return to the state when the mill levy distribution was made, the general fund share of the oil and natural gas tax was deposited directly in the general fund. This deposit is made under the oil and natural gas tax category rather than under the property tax revenue category, as was done previously when it was categorized as non-levy revenue. Second, HB 10 (2002 Special Session) temporarily allocated all but $400,000 of the state's share of oil and natural gas tax to the general fund. The remaining $400,000 was allocated to the coal bed methane protection account.

In FY 2005 and FY 2006, general fund revenue increased 52% and 48% to $92.563 million in FY 2006. This increase was due to higher prices and production. In FY 2007, revenue is projected to decrease primarily due to a decrease in natural gas prices. Gas prices are projected to increase in FY 2008 and FY 2009 bringing revenue above $90 million.

Forecast Methodology and Projection Calculation

The five steps to estimate oil and natural gas production tax general fund revenue are:

1) Estimate average price by category of well;
2) Estimate production by category of well;
3) Estimate the taxable value of production and tax liability by category of well and type of ownership interest;
4) Adjust model forecast to actual revenue; and
5) Allocate revenue between the general fund and other funds.

The state recognizes several categories of wells and two types of ownership for tax purposes. The well categories are defined by product, age, direction of bore, quantity of production, and whether primary, secondary or tertiary modes of extraction are used. Several of the oil well categories are treated differently when the average price of West Texas Intermediate (WTI) is less than a specific target price.

The two basic groups pay the oil and gas production tax: working owners and royalty owners. Working owners are operators and investors who participate in the cost of producing oil and gas. Owners of oil and gas that do not participate in the cost of production are royalty owners. The "interest" of an owner is the share of the gross value of production distributed to the owner. The tax on working interests varies by well category. The tax on royalty interests is the same for all well categories. The well categories, ownership types, and specific tax rates are summarized in Table 2.

Table 2
Oil and Natural Gas Tax Rates by Well Category and Interest

Product	Well Category	Working Interest	Royalty Interest
Gas	New Vertical 0-12 Months	0.76%	15.06%
	New Horizontal 0-18 Months	0.76%	15.06%
	All Other Post-1999	9.26%	15.06%
	Pre-1999 Regular	15.06%	15.06%
	Pre-1999 Stripper	11.26%	15.06%
Oil	New Vertical 0-12 Months	0.76%	15.06%
	New Horizontal 0-18 Months	0.76%	15.06%
	Horizontal Recompletion 0-18 Months	5.76%	15.06%
	Post-1999 Regular	9.26%	15.06%
	Pre-1999 Regular	12.76%	15.06%
	Stripper Exemption (WTI < $38/bbl)	0.76%	15.06%
	Stripper Exemption (WTI > $38/bbl)	6.26%	15.06%
	Stripper (1)	5.76%	15.06%
	Stripper (1) 10-15 Bbl/D	9.26%	15.06%
	Incremental Secondary (1,2)	8.76%	15.06%
	Incremental Tertiary (1,2)	6.06%	15.06%

(1) Applies only when average price of WTI < $30/bbl
(2) Applies only to increment of increased production

The working interest is taxed at 0.76% for natural gas from new wells. The working interest is taxed at 9.26% for natural gas from all other "post-99" wells. Post-99 wells are wells that began production after 1999, or resumed production after 1999 following a five-year break in production. The working interest of the gross value of natural gas production from pre-99 wells is taxed at 11.26% for "strippers" (less than 60,000 cubic feet per day in the previous year) and 15.06% for all other wells.

The working interest on oil from new wells is taxed similar to natural gas. The working interest on oil from horizontal recompletion wells is taxed at 5.76% for 18 months. After this period, the rate reverts to the regular rate of 9.26% if the well is post-99, or 12.76% if the well is pre-99. A horizontal recompletion is a well that has been re-drilled with a horizontal bore.

Stripper exemption or "super stripper" oil is oil from wells on leases that averaged less than three barrels of oil per well per day in the preceding calendar year. The working interest of this production is taxed at 0.76% if the average price of WTI in the current quarter is less than $38 per barrel. If the average price of WTI is greater than or equal to $38 per barrel, the working interest of this production is taxed at 6.26%.

Stripper oil is oil from wells on leases that averaged between three and fifteen barrels of oil per well per day in the preceding calendar year. If the average price of WTI in the current quarter is less than $38 per barrel, the working interest on the first 10 barrels per day is

taxed at 5.76%, and the working interest on greater than ten barrels per day of average production is taxed at 9.26%. If the average price of WTI is greater than or equal to $30 per barrel, the working interest on all stripper production is taxed at regular pre-99 or post-99 rates, depending on the age of the well.

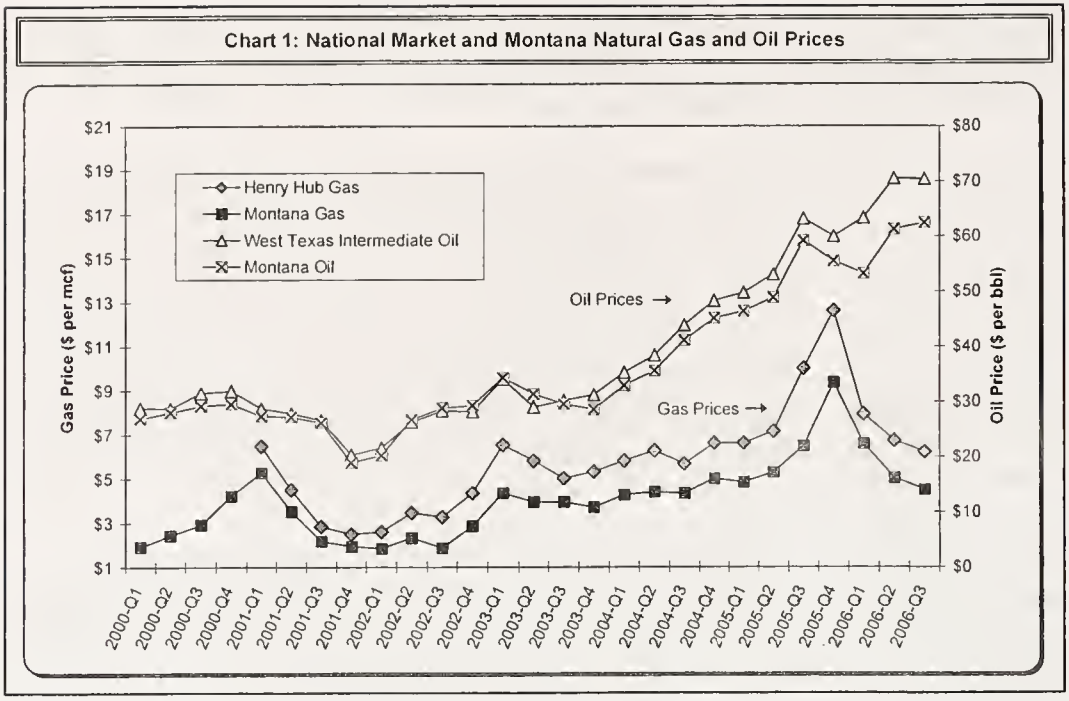
Incremental secondary and incremental tertiary oil is the increment of oil produced by secondary and tertiary recovery techniques beyond what would be produced using primary extraction methods. Primary methods include the natural pressure of the oil reservoir and artificial lift (pumps). Secondary recovery methods include injection of water or re-injection of natural gas from the well to increase reservoir pressure and enhance production. Tertiary recovery methods include water flooding, carbon dioxide or other miscible fluid displacement, steam injection, in-situ combustion (fire flooding), and other enhanced recovery techniques. If the average price of WTI is less than $30 per barrel in the current quarter, the working interest on secondary increment is taxed at 8.76%, and the working interest on tertiary increment is taxed at 6.06%. Otherwise, secondary and tertiary increments are taxed as regular pre- or post-99 production.

The price of WTI is not projected to drop below $38 per barrel through FY 2009. In this case, the oil stripper exemption rate on working interest will be 6.26%, and the working interest rates on oil production from stripper wells, secondary increment, and tertiary increment will not apply. To simplify projection of the tax on the working interest, this analysis assumes production will fall into one of nine classes:

- New natural gas
- Other post-99 natural gas (post-99 regular gas)
- Regular pre-99 natural gas
- Stripper pre-99 natural gas
- New oil
- Horizontal recompletion oil
- Regular post-99 oil (includes post-99 stripper and enhanced increment oil)
- Regular pre-99 oil (includes pre-99 stripper and enhanced increment oil)
- Stripper exemption oil

Prices

Oil and gas prices vary across the North American market depending on the chemical characteristics of the oil or natural gas and the transportation costs. Prices in all parts of the continent move together, and Montana prices generally follow national trends closely. Chart 1 illustrates the relationship between Montana prices and national prices for natural gas and oil in calendar years and quarters.



The Montana natural gas and oil prices in Chart 1 are averaged over production categories and weighted by production. Natural gas prices are in dollars per thousand cubic feet ($/mcf), while oil prices are in dollars per barrel ($/bbl). The Henry Hub natural gas price is the price of natural gas delivered to Henry Hub, and it is the pricing point for New York Mercantile Exchange (NYMEX) natural gas futures contracts. Prices for West Texas Intermediate oil (WTI) are quoted at Cushing, Oklahoma, a major crude oil shipment point that has extensive pipeline connections to oil producing areas and refining centers in the Southwest and along the Gulf Coast.

Prices are forecast for each of the nine taxation categories of oil and gas production listed previously. The future prices were projected with a statistical model that uses the relationship between Montana prices and the national prices over time. Global Insight's forecast of the Henry Hub price was used to forecast natural gas prices, and the oil prices were projected with Global Insight's WTI price forecast.

Table 3 shows the average annual Henry Hub natural gas price and average annual prices for the natural gas production categories. The Henry Hub price is converted from dollars per million British thermal units ($/mmBtu) to $/mcf. Table 3 also shows the average annual price of WTI, along with prices for the five categories of oil production. Actual and projected prices are shown for FY 2003 through FY 2009.

Table 3
Oil and Natural Gas Prices

Production Category	FY 2003 (Actual)	FY 2004 (Actual)	FY 2005 (Actual)	FY 2006 (Actual)	FY 2007 (Projected)	FY 2008 (Projected)	FY 2009 (Projected)
Gas Prices ($ per mcf)							
Henry Hub Price	**$5.00**	**$5.61**	**$6.51**	**$9.33**	**$7.65**	**$10.08**	**$9.88**
New Production	$3.10	$4.09	$4.96	$7.71	**$5.92**	**$8.12**	**$7.94**
Post-99 Regular	$3.15	$3.97	$4.83	$6.70	**$5.44**	**$7.18**	**$7.03**
Pre-99 Regular	$2.94	$3.97	$4.71	$6.36	**$5.29**	**$7.02**	**$6.89**
Pre-99 Stripper	$3.66	$4.35	$4.96	$6.59	**$5.50**	**$7.00**	**$6.87**
Weighted Avg MT Gas Price	$3.26	$4.09	$4.88	$6.90	**$5.56**	**$7.37**	**$7.22**
Percentage Change		25.40%	19.41%	41.41%	**-19.32%**	**32.49%**	**-2.05%**
Oil Prices ($ per bbl)							
WTI Price	**$29.91**	**$33.75**	**$48.74**	**$64.26**	**$66.19**	**$65.62**	**$64.16**
New Production	$28.21	$32.06	$47.01	$59.28	**$60.34**	**$59.63**	**$58.03**
Horizontal Recompletion	$26.81	$31.10	$44.28	$54.09	**$55.92**	**$55.28**	**$53.85**
Post-99 Regular	$27.46	$31.56	$45.92	$56.90	**$57.52**	**$57.08**	**$55.55**
Pre-99 Regular	$27.17	$30.17	$43.88	$54.68	**$55.48**	**$54.89**	**$53.44**
Stripper Exemption	$24.83	$27.52	$40.52	$55.55	**$56.26**	**$55.52**	**$53.90**
Weighted Avg MT Oil Price	$27.27	$30.82	$45.58	$57.28	**$58.29**	**$57.77**	**$56.30**
Percentage Change		13.02%	47.87%	25.68%	**1.76%**	**-0.89%**	**-2.54%**

The Henry Hub natural gas price is projected to decrease in FY 2007 and then increase in FY 2008. The average Montana price is projected to follow the Henry Hub trend and decrease 20% in FY 2007 and then increase 33% to $7.37/mcf in FY 2008. Montana natural gas prices are then forecast to decrease slightly in FY 2009 to $7.22/mcf.

The average Montana price of oil is projected to increase slightly to $58.29 as the WTI price increases in FY 2007. Prices are forecast to decrease slightly after FY 2007 to $57.77 in FY 2008 and to $56.30 in FY 2009.

Production

Natural gas production increased significantly from FY 1997 through FY 2005. Production increased slightly between FY 2005 and FY 2006. Natural gas production is expected to level off, so production from new wells and post-99 wells are forecast to remain at FY 2006 levels through FY 2009. Production from pre-99 wells has been slowly declining over time and is projected to continue falling through FY 2009. Pre-99 stripper wells have been producing around 20 million mcfs since FY 2000. Production is projected to be the average yearly production since FY 2000 from FY 2007 to FY 2009.

Total natural gas production is projected to remain close to FY 2006 levels while decreasing slightly each year. This is primarily due to the leveling off of new production and the decrease in pre-99 production. As shown in Table 4, total natural gas production is projected to be 103 million mcf in FY 2007, 102 million mcf in FY 2008, and 101 million mcf in FY 2009.

Table 4
Oil and Natural Gas Production

Gas Production (mcf)							
Production Category	FY 2003 (Actual)	FY 2004 (Actual)	FY 2005 (Actual)	FY 2006 (Actual)	FY 2007 (Projected)	FY 2008 (Projected)	FY 2009 (Projected)
New Production	12,109,003	20,126,939	24,812,234	26,017,526	**26,017,526**	**26,017,526**	**26,017,526**
Post-99 Regular	28,417,953	30,905,214	37,821,877	48,562,487	**48,562,487**	**48,562,487**	**48,562,487**
Pre-99 Regular	14,402,051	14,690,805	11,859,678	9,931,713	**7,591,500**	**6,791,500**	**5,991,500**
Pre-99 Stripper	23,839,593	19,476,471	21,245,145	20,112,149	**20,360,808**	**20,360,808**	**20,360,808**
Total Production	78,768,600	85,199,429	95,738,933	104,623,876	**102,532,321**	**101,732,321**	**100,932,321**

Oil Production (bbl)							
Production Category	FY 2003 (Actual)	FY 2004 (Actual)*	FY 2005 (Actual)*	FY 2006 (Projected)	FY 2007 (Projected)	FY 2008 (Projected)	FY 2009 (Projected)
New Production	2,783,643	6,205,691	12,124,920	15,255,905	**16,922,437**	**18,055,612**	**18,958,456**
Horizontal Recompletion	429,273	453,934	349,872	260,601	**207,458**	**141,074**	**74,690**
Post-99 Regular	1,631,154	2,931,114	4,864,690	9,096,785	**9,449,511**	**10,563,111**	**11,515,605**
Pre-99 Regular	12,150,698	11,385,972	10,434,121	9,652,456	**9,205,828**	**8,582,701**	**7,959,574**
Stripper Exemption	626,925	603,920	626,087	649,493	**604,883**	**549,065**	**487,507**
Total Production	17,621,693	21,580,631	28,399,690	34,915,240	**36,390,117**	**37,891,563**	**38,995,832**

Total oil production increased 94.58% from FY 2003 to FY 2005. Production increased slightly in FY 2006 to 35 million bbls. Future oil production was forecast separately for each production type.

New oil production has increased over time and is driven by the price of oil, so production from new oil wells was forecast using the projected Montana oil price in addition to a time trend. Though the price of oil is projected to decrease slightly, new oil production is forecast to increase slightly due to the time trend.

A time trend was also used to forecast production from horizontal recompletion wells and pre-99 regular wells, which tend to decrease over time. Production from both types of wells is projected to decrease through FY 2009.

Post-99 regular oil production was forecast using both a time trend and a forecast of lagged new oil production as predictors. Lagged new oil production is the value of new oil production in the previous quarter. Some portion of new oil production in the previous quarter becomes post-99 regular oil production in the current quarter. Post-99 regular oil production also tends to increase with time, as more wells enter the category. Post-99 regular oil production is forecast to increase from FY 2007 through FY 2009.

Finally, the stripper exemption oil production was forecast using the projected Montana oil price in addition to a time trend, because production has typically been sensitive to the

product price. Stripper exemption production tends to increase with product price, but decrease with time. As the projected price of oil decreases slightly through FY 2009, the stripper exemption production is also forecast to decrease.

Total oil production is forecast to increase yearly from FY 2007 to FY 2009. Production is forecast to be 36 million bbls in FY 2007, 38 million bbls in FY 2008, and 39 million bbls in FY 2009.

Taxable Value and Tax Liability

The gross value of production for each well category is calculated by multiplying production by the average price. Table 5 shows this calculation for the combined categories of production for natural gas and oil.

Table 5
Gross Value of Oil and Natural Gas Production

Fiscal Year	Product	Production		Average Price		Gross Value	Percent Change
A 2003	Gas	78,768,600	X	$3.26	=	$256,604,119	-----
A 2004	Gas	85,199,429	X	$4.09	=	$348,041,580	36%
A 2005	Gas	95,738,933	X	$4.88	=	$466,999,654	34%
A 2006	Gas	104,623,876	X	$6.90	=	$721,646,482	55%
F 2007	**Gas**	**102,532,321**	X	**$5.56**	=	**$570,573,987**	**(21%)**
F 2008	**Gas**	**101,732,321**	X	**$7.37**	=	**$750,034,265**	**61%**
F 2009	**Gas**	**100,932,321**	X	**$7.22**	=	**$728,914,141**	**(3%)**
A 2003	Oil	17,621,693	X	$27.27	=	$480,553,257	-----
A 2004	Oil	21,580,631	X	$30.82	=	$665,160,065	38%
A 2005	Oil	28,399,690	X	$45.58	=	$1,294,334,007	95%
A 2006	Oil	34,915,240	X	$57.28	=	$1,999,934,579	55%
F 2007	**Oil**	**36,390,117**	X	**$58.29**	=	**$2,121,140,123**	**6%**
F 2008	**Oil**	**37,891,563**	X	**$57.77**	=	**$2,189,076,512**	**3%**
F 2009	**Oil**	**38,995,832**	X	**$56.30**	=	**$2,195,558,103**	**0%**

The gross value of natural gas production increased 55% in FY 2006 due to high prices and increased production. Prices and production are projected to decrease in FY 2007 causing a projected 21% drop in the gross value of natural gas. Gross value is projected to increase 61% in FY 2008 and stay near this level in FY 2009 due to projected increases in price.

The gross value of oil production also increased dramatically in FY 2006 to $2 billion, a 55% increase from FY 2005. Oil production is projected to increase slightly while oil prices are forecast to decrease slightly, causing the gross values of oil to remain close to FY 2006 levels through FY 2009.

The gross value of production is shared between working interest owners and royalty owners, so the tax liability is projected for both working interest owners and royalty owners.

For each category, the percentage of the gross value of production paid to working interest and royalty interest owners was calculated for the period from FY 2001 through FY 2006 from tax returns. These historical ratios were used to forecast interest percentages for each production type. A weighted average of the projected interest percentages is multiplied by the gross value to forecast working or royalty interest. The projected interests are multiplied by the average tax rate to get the taxable value. The projected working interest percentages and working interest taxable values are shown in Table 6.

Table 6
Working Interest Taxable Value and Tax Liability

Natural Gas Working Interest

Fiscal Year	Gross Value		Working Interest Percentage of Gross Value		Average Working Interest Tax Rate		Working Interest Tax Liability	Percent Change
A 2003	$256,604,119	X	84.69%	X	9.65%	=	$20,982,036	-----
A 2004	$348,041,580	X	84.93%	X	8.72%	=	$25,780,150	23%
A 2005	$466,999,654	X	84.64%	X	8.17%	=	$32,310,448	25%
A 2006	$721,646,482	X	84.82%	X	7.74%	=	$47,405,937	47%
F 2007	**$570,573,987**	X	**84.72%**	X	**7.76%**	=	**$37,523,351**	**(21%)**
F 2008	**$750,034,265**	X	**84.72%**	X	**7.61%**	=	**$48,360,675**	**29%**
F 2009	**$728,914,141**	X	**84.71%**	X	**7.56%**	=	**$46,684,411**	**(3%)**

Oil Working Interest

Fiscal Year	Gross Value		Working Interest Percentage of Gross Value		Average Working Interest Tax Rate		Working Interest Tax Liability	Percent Change
A 2003	$480,553,257	X	85.29%	X	8.97%	=	$36,773,939	-----
A 2004	$665,160,065	X	84.96%	X	8.23%	=	$46,515,065	26%
A 2005	$1,294,334,007	X	84.50%	X	6.82%	=	$74,568,108	60%
A 2006	$1,999,934,579	X	84.48%	X	6.29%	=	$106,287,181	43%
F 2007	**$2,121,140,123**	X	**84.47%**	X	**5.61%**	=	**$100,586,772**	**(5%)**
F 2008	**$2,189,076,512**	X	**84.37%**	X	**5.44%**	=	**$100,396,752**	**(0%)**
F 2009	**$2,195,558,103**	X	**84.26%**	X	**5.28%**	=	**$97,712,575**	**(3%)**

The average working interest tax rates decrease each year after FY 2007 for natural gas because of the increased proportion of new production with lower tax rates. The working interest tax liability for natural gas production is forecast to decrease 21% in FY 2007 due to a large decrease in projected gross value. Tax collections are then expected to increase to $48 million in FY 2008 primarily due to increased prices. Tax liability is projected to decrease 3% in FY 2009.

The working interest tax liability for oil production is forecast to decrease slightly in FY 2007. This is due to decreasing in average tax rates as new wells with lower tax rates increase the proportion of production. Working interest tax liability is forecast to remain near this level though FY 2009.

Table 7 shows the projected gross value of natural gas and oil multiplied by the royalty interest percentage which equals taxable value. This is multiplied by the royalty tax rate of 15.06% to get royalty interest tax liability.

Table 7
Royalty Interests Taxable Value and Tax Liability

Natural Gas Royalty Interest

Fiscal Year	Gross Value		Royalty Interest Percentage of Gross Value		Royalty Tax Rate		Royalty Interest Tax Liability	Percent Change
A 2003	$256,604,119	X	10.68%	X	15.06%	=	$4,128,504	-----
A 2004	$348,041,580	X	10.42%	X	15.06%	=	$5,462,839	32%
A 2005	$466,999,654	X	10.53%	X	15.06%	=	$7,402,613	36%
A 2006	$721,646,482	X	10.45%	X	15.06%	=	$11,362,384	53%
F 2007	**$570,573,987**	X	**10.52%**	X	**15.06%**	=	**$9,039,849**	**(20%)**
F 2008	**$750,034,265**	X	**10.53%**	X	**15.06%**	=	**$11,893,157**	**32%**
F 2009	**$728,914,141**	X	**10.53%**	X	**15.06%**	=	**$11,558,784**	**(3%)**

Oil Royalty Interest

Fiscal Year	Gross Value		Royalty Interest Percentage of Gross Value		Royalty Tax Rate		Royalty Interest Tax Liability	Percent Change
A 2003	$480,553,257	X	11.15%	X	15.06%	=	$8,068,806	-----
A 2004	$665,160,065	X	11.84%	X	15.06%	=	$11,864,016	47%
A 2005	$1,294,334,007	X	12.89%	X	15.06%	=	$25,130,522	112%
A 2006	$1,999,934,579	X	13.09%	X	15.06%	=	$39,434,995	57%
F 2007	**$2,121,140,123**	X	**13.28%**	X	**15.06%**	=	**$42,407,047**	**8%**
F 2008	**$2,189,076,512**	X	**13.62%**	X	**15.06%**	=	**$44,916,422**	**6%**
F 2009	**$2,195,558,103**	X	**13.99%**	X	**15.06%**	=	**$46,252,087**	**3%**

The royalty interest tax liability from natural gas production is projected to decrease 20% in FY 2007 due to the decrease in gross value. As gross value increases in FY 2008, the royalty tax liability also increases and then decreases slightly in FY 2009. The royalty tax for oil production is forecast to increase slightly through FY 2009 due to increases in gross value.

Table 8 shows the projected revenue from the oil and gas production tax by interest type and total tax revenue. Total revenue from the oil and gas production tax is projected to decrease to $189.557 million in FY 2007. As projected gas prices increase in FY 2008 the total oil and gas revenue is forecast to increase to $205.567 million. Revenue is projected to decrease slightly to $202.208 in FY 2009.

Table 8
Projected Oil and Gas Production Taxes
($ millions)

	Actual Revenue				Projected Revenue		
Product and Interest Category	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Natural Gas Working Interest	$20.982	$25.780	$32.310	$47.406	$37.523	$48.361	$46.684
Natural Gas Royalty Interest	$4.129	$5.463	$7.403	$11.362	$9.040	$11.893	$11.559
Oil Working Interest	$36.774	$46.515	$74.568	$106.287	$100.587	$100.397	$97.713
Oil Royalty Interest	$8.069	$11.864	$25.131	$39.435	$42.407	$44.916	$46.252
Total Tax Revenue	$69.953	$89.622	$139.412	$204.490	$189.557	$205.567	$202.208

Revenue Adjustment

The model used to forecast natural gas and oil revenue used data from tax returns. Additional revenue is generated from audits, penalties, and late payments. The additional revenue varies across years and does not follow a particular pattern. Table 9 shows the difference in actual revenue and the model revenue from the tax returns. The difference is additional revenue and it ranges from $5 million in FY 2004 to $1 million in FY 2005, averaging $2.691 million.

Table 9
Adjusting Model to Actual Revenue
($ millions)

Fiscal Year	Actual Revenue		Model Revenue		Difference
A 2003	$71.679	-	$69.953	=	$1.726
A 2004	$94.631	-	$89.622	=	$5.009
A 2005	$140.818	-	$139.412	=	$1.407
A 2006	$207.113	-	$204.490	=	$2.623
	Average			=	**$2.691**

The average additional revenue is used to adjust the model projections for audits, penalties, and late payments. Table 10 shows the addition of $2.691 million to the model forecast to get adjusted revenue. Total oil and gas revenue is projected to be $192.248 million in FY 2007, $208.258 million in FY 2008, and $204.899 million in FY 2009.

Table 10
Adjusting Model Forecast
($ millions)

Fiscal Year	Model Revenue		Adjustment		Adjusted Revenue
A 2007	**$2.691**	**+**	**$2.691**	**=**	**$5.382**
A 2008	**$2.691**	**+**	**$2.691**	**=**	**$5.382**
A 2009	**$2.691**	**+**	**$2.691**	**=**	**$5.382**

Allocation of Oil and Gas Production Taxes

The allocation of oil and gas production taxes is as follows:

1) In FY 2006, 0.18% of *gross taxable revenue* was distributed to the Board of Oil and Gas Conservation (BOGC) to cover administrative costs. On October 1, 2006, the BOGC lowered the rate to 0.09%.

2) In FY 2006, 0.08% of gross taxable revenue was distributed to the coal, oil and natural gas resource account for producing counties. From October, 1 2006 onward, the account is allocated 0.17% of gross taxable revenue.

3) Counties that produce oil and gas production tax revenue receive a percentage of the tax revenue collected in that county. The percentages vary by county (15-36-331, MCA), and the revenue is further allocated among the county, school districts, and countywide school funds (15-36-332, MCA).

4) Of the remaining revenue, 1.23% is distributed to the coal bed methane protection account, 2.95% is distributed to a reclamation and development grants special revenue account, 2.95% is distributed to the orphan share account, and 2.65% is distributed to the Montana university system.

5) In FY 2006, $50,000 was allocated to the Legislative Services Division to study split estates of property between mineral and surface owners. (HB 790, 2005 Session)

6) All remaining proceeds are distributed to the general fund.

Table 9 shows the actual distribution of oil and gas production taxes in FY 2006 and projected allocations for FY 2007 through FY 2009.

Table 11
Oil and Gas Production Tax Revenue by Fund
($ millions)

	Acutal		Forecast					
	FY 2006*		FY 2007		FY 2008		FY 2009	
Entity	Allocation	Percent of Total	Allocation	Percent of Total	Allocation	Percent of Total	Allocation	Percent of Total
Board of Oil and Gas Conservation	$4 811	2 32%	$2.986	1.55%	$2.607	1.2$%	$2.600	1.27%
Oil, Gas, and Coal Natural Resource Account	$2 138	1.03%	$3.914	2.04%	$4.925	2.36%	$4.912	2.40%
Counties, Countywides, and Schools	$95 918	46 31%	$89.033	46.31%	$96.448	46.31%	$94 892	46.31%
Coal Bed Methane Protection Account	$1.282	0.62%	$1.185	0.62%	$1.283	0.62%	$1.261	0.62%
Reclamation and Development Grants Account	$3 074	1 48%	$2.841	1.48%	$3.076	1.48%	$3.024	1.48%
Orphan Share Account	$3 074	1 48%	$2.841	1.48%	$3.076	1.48%	$3.024	1.48%
University System	$2.761	1 33%	$2.552	1.33%	$2.763	1.33%	$2.716	1.33%
HB 790 Split Estates	$0 051	0.02%	NA	NA	NA	NA	NA	NA
General Fund	$94 005	45 39%	$86.895	45.20%	$94.080	45.17%	$92.471	45.13%
Total	$ 207 113	100 00%	$ 192.248	100.00%	$208.258	100.00%	$ 204.899	100.00%

* Total allocation does not match Table 1 or Table 8 because of accruals, late payments, audits, and penalties

In FY 2007 through FY 2009 the county allocation for schools and counties was assumed to be 46.31% of total tax revenue, which was the proportion of total collections distributed to the counties in FY 2006. The general fund is projected to be allocated around 45% of total oil and gas production tax revenue between FY 2007 and FY 2009. General fund revenue is projected to be $86.895 million in FY 2007, $94.080 in FY 2008, and $92.471 million in FY 2009.

Data Sources

Data histories of oil and natural gas production, prices, taxable royalties, working interests, and tax payments are from Board of Oil and Gas Conservation records and summaries of tax returns for FY 2000 through FY 2006. WTI price histories are from the Energy Information Administration (EIA) of the U.S. Department of Energy. Conversion factors for mmBtu per thousand cubic feet of natural gas are also from the EIA. Price projections for Henry Hub and WTI prices are from the October 2006 Global Insight forecast.

U. S. MINERAL ROYALTIES

Revenue Description

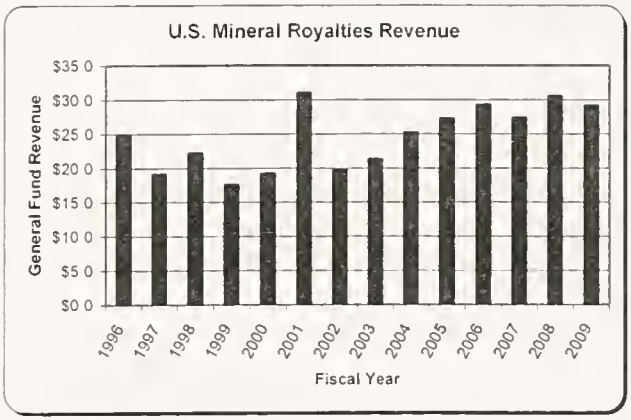
A portion of the minerals produced in Montana are derived from federal land. When the U.S. government leases public lands for mineral production, it pays part of the income to the state where the leased land is located. Montana receives 50% of the royalty revenue from coal, oil, and natural gas production on federal lands within the state. From this state share, 75% is deposited in the general fund and 25% is deposited in a state special revenue fund for mineral impacts.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from U.S. mineral royalty disbursements for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
U.S. Mineral Royalties Revenue
($ millions)

Fiscal Year	Revenue	General Fund	Percent Change
A 1995	25.848	25 848	1.16%
A 1996	24.959	24 959	-3.44%
A 1997	19.161	19 161	-23.23%
A 1998	22.241	22 241	16.07%
A 1999	17.650	17.650	-20 64%
A 2000	19.243	19 243	9.02%
A 2001	31.008	31.008	61.14%
A 2002	19.772	19 772	-36 23%
A 2003	25.990	21.316	7.81%
A 2004	28.736	25 234	18.38%
A 2005	36.392	27.294	8.16%
A 2006	39.071	29.304	7 36%
F 2007	**36.556**	**27.417**	**-6.44%**
F 2008	**40.702**	**30.527**	**11.34%**
F 2009	**38.885**	**29.164**	**-4.47%**



Receipts in FY 2001 include approximately $8 million in payments for production in previous years that was collected due to audits. Without these audit collections, receipts would have been approximately $23 million. Receipts in FY 2002 should have been higher, but $1.7 million in royalties was paid late. This amount was recorded as an adjustment to the general fund ending balance rather than as revenue.

Prior to FY 2005, 12.5% of U.S. mineral royalty revenue was allocated to the counties. Currently, 25% of the U.S. mineral royalty revenue is allocated to counties. General fund revenue form U.S. mineral royalties fluctuates as mineral prices and production levels

change. Changes in revenue for FY 2007 through FY 2009 are primarily attributable to price changes. Prices are generally forecast to decrease in FY 2007, increase in FY 2008, and again decrease in FY 2009.

Forecast Methodology and Projection Calculation

Royalty revenue is generated when minerals are produced on federal lands. The producing company pays the federal government a royalty to extract the mineral. The amount of the royalty is a percent of the taxable value. Taxable value is determined by multiplying the price paid for the mineral by the amount produced.

Ideally, estimates of federal production, price, and royalty rates would be used to project federal royalties. Due to lack of data and information about mineral production on federal land, most royalties are estimated using price fluctuations while assuming production is similar to production during the previous five years. The exception is coal, because additional information from the coal severance tax survey of Montana coal mines allows for a more thorough analysis.

There are five steps in estimating revenues from federal mineral royalties: 1) project mineral prices; 2) use price changes to project oil, natural gas, and natural gas liquids royalty payments; 3) project coal royalties; 4) estimate rents, bonuses, and other payments; and 5) calculate and allocate the U.S. mineral royalty revenue to the appropriate account.

Mineral Prices

U.S. mineral royalties are estimated based on the price of the minerals. Royalties vary with price changes. The price of minerals mined in Montana closely follows the national prices. Table 2 shows actual mineral prices for FY 2006 and forecast prices for FY 2007 through FY 2009.

Table 2
Percent Change in Mineral Prices

Prices	Actual FY 2006	Percent change	Forecast FY 2007	Percent change	Forecast FY 2008	Percent change	Forecast FY 2009	Percent change
Montana Oil ($/bbl)	$57.34	26.45%	**$58.19**	**1.49%**	**$57.62**	**-0.98%**	**$56.16**	**-2.53%**
Henery Hub Gas ($/mmBtu)	$9.05	43.33%	**$7.43**	**-17.97%**	**$9.79**	**31.80%**	**$9.59**	**-2.00%**
Natural Gas Liquid ($/gal)	$0.99	21.30%	**$0.97**	**-1.43%**	**$0.93**	**-4.92%**	**$0.93**	**0.00%**

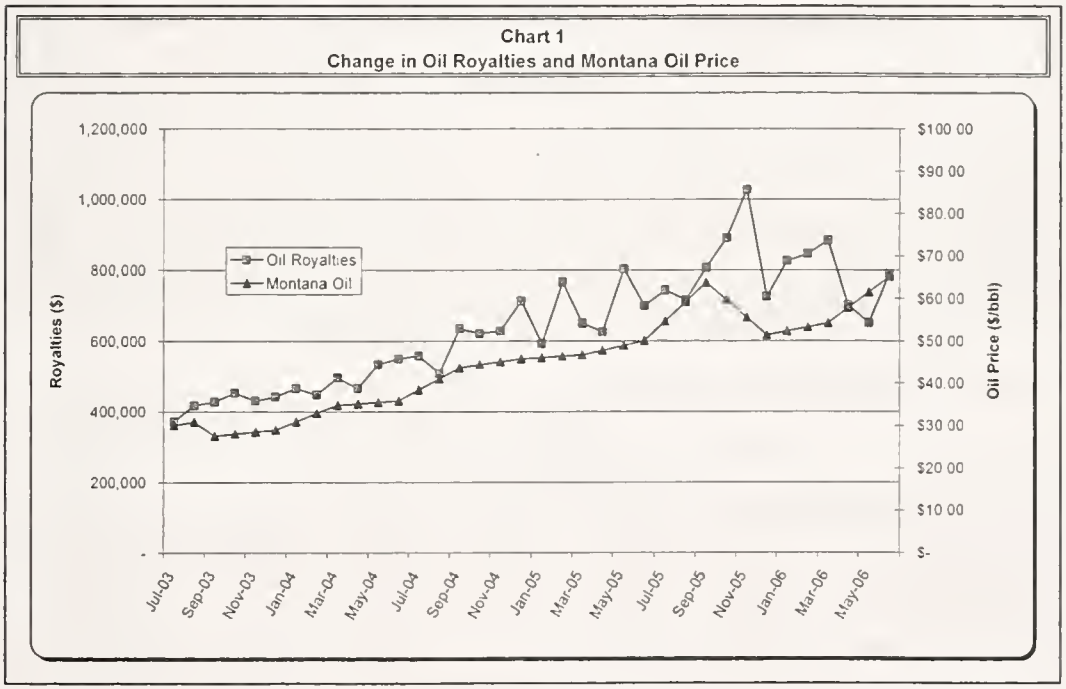
The Montana oil prices are from the OBPP *Oil and Gas Production Tax* analysis. Montana oil prices were forecast using Global Insight's projection of the West Texas Intermediate (WTI) oil price. The oil price is forecast to increase slightly in FY 2007 and then decrease slightly though FY 2009.

The Henry Hub gas price is used to project natural gas royalties. The forecast for the Henry Hub price is from Global Insight. Prices are expected to decrease by 18% in FY 2007 and then increase 32% in FY 2008 and remain close to that in FY 2009.

Gas plant royalties are the byproducts of oil and natural gas production. Natural gas liquid or propane is the main component of gas plant production. Projected natural gas liquid prices are used to forecast gas plant royalties and are from the Mont Belvieu spot and future prices traded on the New York Mercantile Exchange (NYMEX). In FY 2007 prices are projected to decrease slightly and then decrease more in FY 2008. Prices are projected to remain at FY 2008 levels in FY 2009.

Oil, Natural Gas, and Gas Plant Royalties

As seen in Chart 1, oil prices and oil royalty payments move together over time. The relationship between oil price and oil royalties over time is used in a statistical model that forecasts oil royalties using the projected prices.



As seen in Chart 2, natural gas prices and natural gas royalty payments move together over time. The relationship between natural gas price and royalties over time is used in a statistical model that forecasts natural gas royalties using the projected prices.

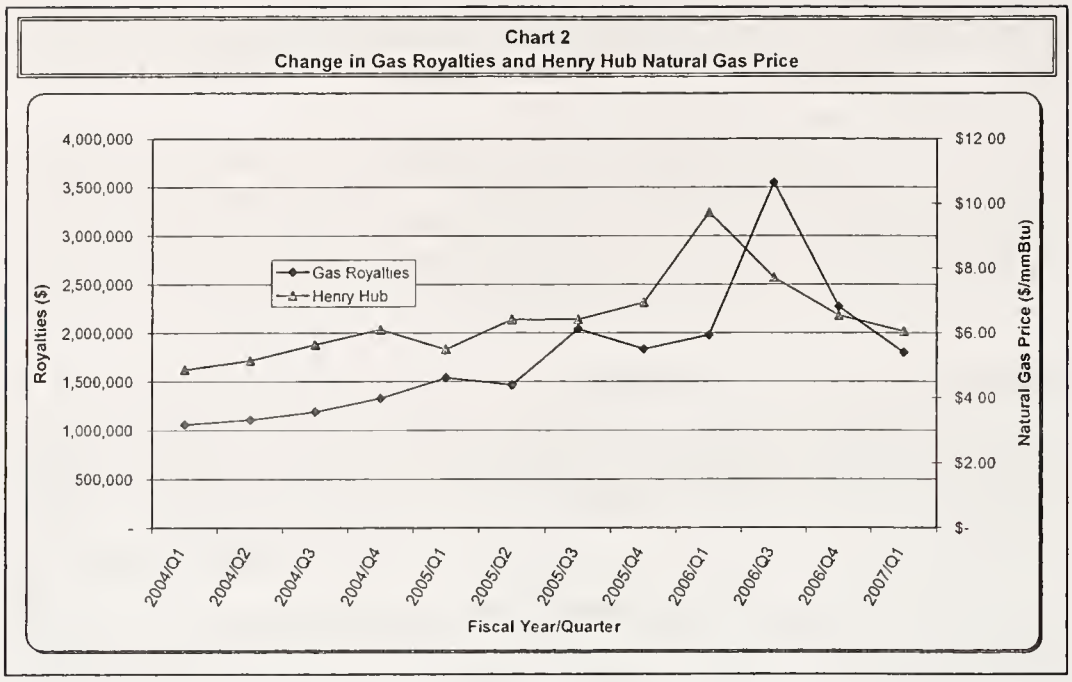


Table 3 shows actual U.S. mineral royalty revenue for FY 2004 through FY 2006 and the forecast revenue for FY 2007 through FY 2009. Oil royalties are projected to decrease each year, primarily due to the decrease in projected prices in FY 2008 and FY 2009. Gas royalties are projected to decrease significantly in FY 2007 and then increase in FY 2008 and remain at that level in FY 2009 with the price variation. Gas plant royalties are projected to decrease in FY 2007 and FY 2008 as the price falls.

Table 3
U.S. Mineral Royalties by Mineral Type
($ millions)

	Actual			Forecast		
Revenue Type	FY 2004	FY 2005	FY 2006	**FY 2007**	**FY 2008**	**FY 2009**
Oil Royalties	$5.507	$7.800	$9.834	**$9.779**	**$9.676**	**$9.427**
Gas Royalties	$4.688	$6.882	$10.522	**$8.465**	**$11.266**	**$11.021**
Gas Plant Royalties	$0.094	$0.136	$0.209	**$0.153**	**$0.144**	**$0.144**

Coal Royalties

The estimate of federal royalty revenue for coal production has three steps.

First, the taxable coal production is determined. The forecast production is obtained from a survey of coal mines in Montana.

Second, the taxable production is multiplied by the estimated coal price to determine the taxable value. Coal prices are estimated by applying Global Insight's producer price index for coal to the most recent average federal coal price in Montana. Table 4 shows the actual and projected production multiplied by the average price to get taxable value.

Table 4
Taxable Value of Coal Production on Federal Land

Fiscal Year	Taxable Production (MM tons)		Average Price ($/ton)		Taxable Value ($ millions)
A 2006	22.150	X	$10.957	=	$242.689
F 2007	**24.444**	X	**$9.725**	=	**$237.718**
F 2008	**26.252**	X	**$9.802**	=	**$257.327**
F 2009	**24.576**	X	**$9.902**	=	**$243.345**

Third, as shown in Table 5, the taxable value is multiplied by the average royalty rate and by the state percentage to get the projected revenue. The average royalty rate varies across years because the royalty rates vary by mine. The proportion of coal produced by each mine changes each year, causing the average royalty rate to change yearly. Total royalty revenue from coal is projected to decrease in FY 2007 to $14.935 million, increase to $16.204 million in FY 2008, and decrease to $14.881 million in FY 2009 due primarily to fluctuations in projected production.

Table 5
Total Coal Royalty Revenue ($ millions)

Fiscal Year	Taxable Value		Average Royalty Rate		State Share		Revenue
A 2006	$242.689	X	12.95%	X	50%	=	$15.715
F 2007	**$237.718**	**X**	**12.57%**	**X**	**50%**	**=**	**$14.935**
F 2008	**$257.327**	**X**	**12.59%**	**X**	**50%**	**=**	**$16.204**
F 2009	**$243.345**	**X**	**12.23%**	**X**	**50%**	**=**	**$14.881**

Rents, Bonuses, and Other Royalties

U.S. mineral royalty disbursements include revenue other than royalties directly derived from the major categories of mineral production. Rents, bonuses, and royalties from other minerals are also part of U.S. mineral royalty disbursements. Rents are annual payments on leases, not currently under production, made to retain rights to the leases. Bonuses are payments made to obtain the rights to mineral leases. Other royalties include royalties on sand and gravel, sulfur, carbon dioxide, and other minor products plus audit payments related to previous years' production and royalties. It also includes some payments not directly related to mineral production, such as pipeline right-of-way fees.

Rents, bonuses, and royalties from small sources show great variation from year to year and follow no particular pattern, as shown in Table 6. The total revenue from these sources is forecast to be the average collections for the past 13 quarters. This average per quarter of $3.413 million is multiplied by four to get an annual revenue estimate for FY

2008 and FY 2009. For FY 2007, actual collections through September are added to the average projection of $3.413 million multiplied by three for the remaining three quarters. Revenue in FY 2007 is projected to be $3.224 million.

General Fund and Mineral Impact Account Revenue

Table 6 shows actual U.S. mineral royalties by mineral type and other revenue for FY 2004 through FY 2006 and forecast revenue for FY 2007 though FY 2009. Total U.S. mineral royalties are forecast to be $36.556 million in FY 2007, $40.702 million in FY 2008, and $38.885 million in FY 2009.

Table 6
Sources and Allocation of U.S. Mineral Royalties Revenue
($ millions)

Revenue Type	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Coal Royalties	$14.227	$17.254	$15.715	**$14.935**	**$16.204**	**$14.881**
Oil Royalties	$5.507	$7.800	$9.834	**$9.779**	**$9.676**	**$9.427**
Gas Royalties	$4.688	$6.882	$10.522	**$8.465**	**$11.266**	**$11.021**
Gas Plant Royalties	$0.094	$0.136	$0.209	**$0.153**	**$0.144**	**$0.144**
Other Revenue	$5.507	$3.775	$2.073	**$3.224**	**$3.413**	**$3.413**
Total	$30.023	$35.847	$38.352	**$36.556**	**$40.702**	**$38.885**
Revenue Allocation						
General Fund	$26.520	$25.429	$28.764	**$27.417**	**$30.527**	**$29.164**
Mineral Impact Account	$3.502	$10.418	$9.588	**$9.139**	**$10.176**	**$9.721**
Total	$30.023	$35.847	$38.352	**$36.556**	**$40.702**	**$38.885**

The general fund receives 75% of the total state share of U.S. mineral royalties and the mineral impact account receives 25%. General fund revenue from U.S. mineral royalties is forecast to be $27.417 million in FY 2007, $30.527 million in FY 2008, and $29.164 million in FY 2009. The mineral impact account is forecast to receive $9.139 million in FY 2007, $10.176 million in FY 2008, and $9.721 in FY 2009.

Data Sources

Past oil and gas prices are from the Energy Information Administration of the U.S. Department of Energy. FY 2006 coal prices were obtained from the MMS. Futures prices for oil, natural gas, and coal are from Global Insight's October 2006 forecast. Past coal production is from the coal severance tax returns. Estimates of future coal production are from a survey of the coal companies. The MMS provides mineral production from federal leases, its value, royalties and payments to the state.

COAL SEVERANCE TAX

Revenue Description

Coal mines in Montana pay a severance tax based on the value of coal produced (15-35-103, MCA). The tax rate on coal varies with the heat content of the coal and the type of mine (open pit or underground). Each producer is exempt from tax on 20,000 tons per year, and mines producing less than 50,000 tons per year are exempt from the tax.

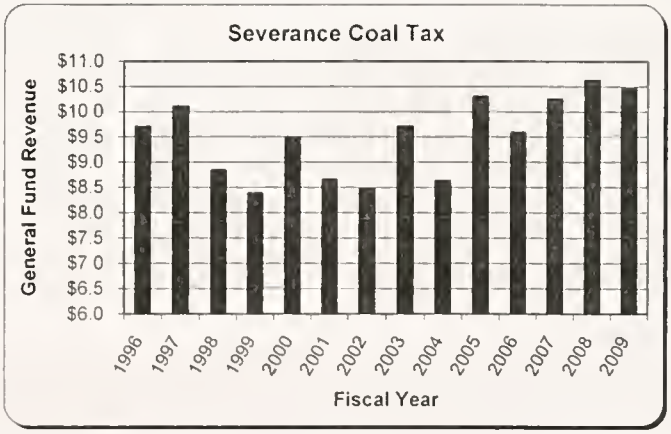
Coal severance taxes are distributed to several funds. In FY 2000 through FY 2002, the general fund received 26.79% of coal severance tax (coal tax) revenue. In FY 2003 the general fund allocation was 33.04% (HB 10, 2002 Special Session). In FY 2004 and FY 2005 the general fund allocation was 27.4% (HB 18, 2002 Special Session). In FY 2006 the general fund received 26.79% of coal tax revenue (HB 482 and HB 758, 2005 Session). This allocation is not scheduled to change under current law.

Historical and Projected Revenue

Table 1 shows actual coal severance tax general fund collections from FY 1996 through FY 2006 and forecast general fund revenue for FY 2007 through FY 2009.

Table 1
Coal Severance Tax - General Fund Revenue
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	$ 9.714	56.17%
A 1997	$10.111	4.09%
A 1998	$ 8.849	-12.48%
A 1999	$ 8.393	-5.16%
A 2000	$ 9.502	13.22%
A 2001	$ 8.663	-8.83%
A 2002	$ 8.469	-2.24%
A 2003	$ 9.722	14.78%
A 2004	$ 8.643	-11.09%
A 2005	$10.312	19.31%
A 2006	$ 9.597	-6.94%
F 2007	**$10.259**	**6.90%**
F 2008	**$10.634**	**3.66%**
F 2009	**$10.466**	**-1.58%**



Coal tax general fund revenue is projected to increase to $10.259 million in FY 2007 and to $10.634 million in FY 2008. These increases are due to projected increases in coal

production. Coal tax general fund revenue is projected to decrease slightly to $10.466 million in FY 2009, due to decreased production.

Forecast Methodology and Projection Calculation

There are five steps to forecasting general fund revenue from the coal severance tax:

1. Forecast production
2. Forecast the average contract sales price
3. Forecast taxable value by multiplying production by price
4. Forecast tax revenue by multiplying taxable value by the projected tax rate
5. Allocate projected tax revenue to the different funds

Coal Production

In the fall of 2006, the budget office surveyed coal producers in Montana about expectations of production through calendar year 2009. Results of this survey were used to forecast production. Taxable production is total production less the 20,000 tons each producer can deduct per calendar year. Prior to January 1, 2006, producers were allowed to deduct up to two million tons of coal produced as feedstock for coal enhancement facilities.

Table 2 shows actual and projected coal production, exemptions, and taxable production from FY 2001 through FY 2009.

Taxable production is projected to increase to 36.277 million tons in FY 2007 and 37.717 million tons in FY 2008. In FY 2009 taxable production is projected to decrease to 36.907 million tons.

Table 2
Calculation of Taxable Coal Production
(tons millions)

Fiscal Year	Total Production		20,000 Ton Exemption		Feedstock Exemption		Taxable Production
A 2001	32.733	-	0.073	-	0.341	=	32.318
A 2002	33.259	-	0.110	-	0.000	=	33.149
A 2003	30.346	-	0.100	-	0.000	=	30.246
A 2004	31.927	-	0.093	-	0.000	=	31.834
A 2005	34.361	-	0.090	-	0.000	=	34.271
A 2006	34.240	-	0.100	-	0.000	=	34.140
F 2007	**36.377**	-	**0.100**	-	**0.000**	=	**36.277**
F 2008	**37.817**	-	**0.100**	-	**0.000**	=	**37.717**
F 2009	**37.007**	-	**0.100**	-	**0.000**	=	**36.907**

Coal Price and Taxable Value

The contract sales price is the actual mine mouth price less state and federal taxes, and state, federal, and tribal royalties of more than 15 cents per ton. Contract sales prices for each company were estimated by applying Global Insight's quarterly forecast of the coal producer price index to each company's most recent actual contract sales price. The projected average contract sales price increases in FY 2007 and FY 2008, and decreases slightly in FY 2009. These changes are due to changes in the coal producer price index forecast.

Taxable value is the product of taxable production and contract sales price. Table 3 shows actual and projected taxable production, average contract sales price, and the taxable value of coal production from FY 2001 through FY 2009.

Projected taxable value increases to $259.6 million in FY 2007 and to $271.1 million in FY 2008 due to production and price increases. Forecast taxable value decreases to $268.9 million in FY 2009 due to decreases in production.

Table 3
Taxable Value of Coal Production

Fiscal Year	Taxable Production (MM tons)		Average Contract Sales Price ($/ton)		Taxable Value ($ millions)	Percent Change
A 2001	32.318	X	$6.231	=	$201.362	(11.05%)
A 2002	33.149	X	$6.380	=	$211.487	5.03%
A 2003	30.246	X	$6.596	=	$199.490	(5.67%)
A 2004	31.834	X	$7.218	=	$229.792	15.19%
A 2005	34.271	X	$7.001	=	$239.946	4.42%
A 2006	34.140	X	$7.009	=	$239.270	(0.28%)
F 2007	**36.277**	X	**$7.155**	=	**$259.556**	**8.48%**
F 2008	**37.717**	X	**$7.188**	=	**$271.116**	**4.45%**
F 2009	**36.907**	X	**$7.285**	=	**$268.875**	**(0.83%)**

Calculating Tax Revenue

The coal severance tax is forecast by multiplying taxable value by the average tax rate, as shown in Table 4. Most coal production is taxed at 15%, but about 1% is low energy-content coal, which is taxed at 10%. A small share of production is underground production, which is taxed at 4%. The survey of coal mines were used to project the coal tax rate based on mine type. The average tax rate based on the survey is projected to be 14.75% in FY 2007, 14.64% in FY 2008, and 14.53% in FY 2009.

Table 4
Total Coal Severance Tax Revenue
($ millions)

Fiscal Year	Taxable Value		Average Tax Rate		Tax Revenue	Percent Change
A 2001	$201.362	X	14.95%	=	$30.100	(11.00%)
A 2002	$211.487	X	14.94%	=	$31.594	4.96%
A 2003	$199.490	X	14.92%	=	$29.766	(5.79%)
A 2004	$229.792	X	14.90%	=	$34.230	15.00%
A 2005	$239.946	X	14.89%	=	$35.725	4.37%
A 2006	$239.270	X	14.81%	=	$35.447	(0.78%)
F 2007	**$259.556**	X	**14.75%**	=	**$38.293**	**8.03%**
F 2008	**$271.116**	X	**14.64%**	=	**$39.695**	**3.66%**
F 2009	**$268.875**	X	**14.53%**	=	**$39.068**	**(1.58%)**

Total coal tax revenue is forecast to increase 8.03% in FY 2007 and 3.66% in FY 2008 due to production and price increases. Total coal tax revenue is forecast to decrease 1.58% in FY 2009 due to a production decrease.

Coal Severance Tax Allocation

Table 5 shows the actual and projected allocation of coal tax revenue for FY 2006 through FY 2009. The general fund receives a residual allocation after revenue has been allocated to all the other funds, which is 26.79% of total coal severance tax collections.

Table 5
Coal Severance Tax Revenue Allocation by Fund
($ millions)

Account	Percent Allocation	FY 2006 Actual	FY 2007 Projected	FY 2008 Projected	FY 2009 Projected
Coal Tax Trust Fund	50.00%	$17.724	$19.146	$19.847	$19.534
Long Range Building Program Account	12.00%	$4.254	$4.595	$4.763	$4.688
Local Impacts (Shared Account)	5.46%	$1.935	$2.091	$2.167	$2.133
Oil, Gas, and Coal Natural Resource Account	2.90%	$1.028	$1.110	$1.151	$1.133
Parks Trust Fund	1.27%	$0.450	$0.486	$0.504	$0.496
Renewable Resource Loan Debt Service Fund	0.95%	$0.337	$0.364	$0.377	$0.371
Capitol Art Protection Trust Fund	0.63%	$0.223	$0.241	$0.250	$0.246
General Fund	26.79%	$9.496	$10.259	$10.634	$10.466
Total Coal Severance Tax	100.00%	$35.447	$38.293	$39.695	$39.068

Data Sources

Actual coal production, contract sales prices, exemptions, and tax payments were taken from coal severance tax returns. Estimates of future production came from a survey of the coal companies. Forecasts of national coal prices are derived from Global Insight's October 2006 forecast.

METALLIFEROUS MINES LICENSE TAX

Revenue Description

Montana taxes the gross value of metals mined in the state (15-37-101, MCA). Gross value is the market value of the refined product, less the costs of transporting the unrefined product and refining it (15-23-801, MCA). The first $250,000 of gross value is exempt from the tax, which exempts small mines from the tax. The tax rate for production beyond $250,000 depends on the mineral and the amount of processing at the mine. Concentrate, which is unsmelted ore that may have undergone mechanical processing, is taxed at 1.81%. Metals that have been partially or completely separated from impurities by smelting, but may not have had the individual metals separated, are taxed at 1.6% (15-37-103, MCA).

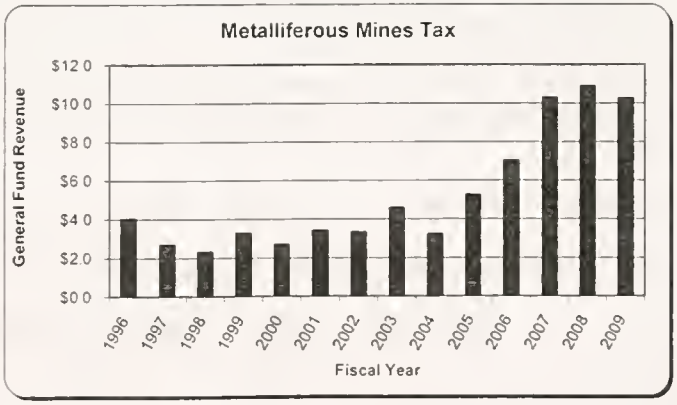
Revenues from the metalliferous mines license tax are divided between the state and counties that have fiscal or economic impacts from large-scale mining. The state general fund currently receives 57% of the revenue. Prior to FY 2006 the general fund received 58%, except for FY 2003 when the general fund received 65% of the tax revenue.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from the metalliferous mines tax for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Metalliferous Mines Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	$4.030	
A 1997	$2.696	-33.10%
A 1998	$2.319	-13.98%
A 1999	$3.305	42.52%
A 2000	$2.703	-18.21%
A 2001	$3.417	26.43%
A 2002	$3.329	-2.58%
A 2003	$4.586	37.76%
A 2004	$3.232	-29.53%
A 2005	$5.264	62.89%
A 2006	$7.028	33.51%
F 2007	**$10.296**	**46.49%**
F 2008	**$10.896**	**5.83%**
F 2009	**$10.264**	**-5.80%**



Revenue from the metal mines tax has varied across years because of changes in the tax

due date, changes in production, and price variation. Through December 31, 2002, the tax was paid annually. Beginning January 1, 2003, the tax is paid semiannually. This resulted in taxes on eighteen months of production being recorded as revenue in FY 2003. Revenue increased from FY 2004 through FY 2006 due to production increases in FY 2005 and price increases in FY 2006. Revenue is projected to continue increasing through FY 2008 with projected production and mineral price increases. A decrease in production causes the 5.8% decrease of revenue in FY 2009.

Forecast Methodology and Projection Calculation

There are five steps to forecasting metal mines license tax revenues:

1. Forecast production of each metal;
2. Forecast the price of each metal;
3. Forecast the taxable value of production by multiplying production and price;
4. Forecast tax revenue by multiplying taxable value and the tax rate; and
5. Allocate tax revenue between the general fund and other funds.

Revenue was estimated using tax information from each mine. However, the information presented in this report is aggregated for groups of metals.

Metal Production

Forecasts of metal production were obtained from a survey of Montana mines. The active large-scale mines in Montana produce gold, platinum, palladium, copper, and molybdenum as their primary products. Other metals may be considered by-products. In this analysis, all of these metals are aggregated into two groups.

- The gold-silver-platinum group includes the primary metals gold, platinum, and palladium; and the by-products of silver and rhodium. Quantities of these metals are typically measured in ounces.

- The base metals group includes the primary metals copper and molybdenum; and the by-products of nickel, lead, and zinc. These metals are typically measured in pounds.

Table 2 shows the actual and projected annual production of the two metal groups.

Table 2
Metal Production of Montana Mines by Metal Category

Metal Group	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Projected	FY 2008 Projected	FY 2009 Projected
Gold, Silver, Platinum Group (oz, millions)	1.69	2 57	2 43	**3.62**	**4.61**	**4.21**
Base Metals Group (lbs, millions)	80.91	113.51	105.09	**127.83**	**176.44**	**139.81**

Production in the gold-silver-platinum group fell slightly in FY2006. Production is forecast to increase 49% in FY 2007 and 26% in FY 2008. In FY 2009 production is forecast to decrease slightly to 4.21 million ounces.

The production of base medals also fell slightly in FY 2006. Production is projected to increase significantly in FY 2007 to 127.83 million lbs. This increase is projected to continue through FY 2008 as base medal production reaches 176.44 million lbs. Production of base metals is projected to decrease in FY 2009 to 139.81 lbs due to a planned cease in operations by one mine in December of FY 2009.

Metal Prices

Most metals are traded on organized exchanges, and prices are public. The commodity exchanges also conduct trading in metal futures contracts. These contracts set a price now for metal to be delivered at a specified time and place in the future. The New York Mercantile Exchange (NYMEX) has futures trading in gold, silver, copper, platinum, and palladium. The London Metals Exchange has futures trading in copper, nickel, lead, and zinc.

Futures prices reflect the future price expectations of market participants. Futures prices are used in this forecast to project prices for gold, silver, platinum, palladium, copper, nickel, lead, and zinc in FY 2007, FY 2008, and FY 2009. Futures markets do not exist for rhodium and molybdenum, so the prices of these metals were forecast to continue at their FY 2006 averages in FY 2007 through FY 2009.

Table 3 shows actual average spot prices in FY 2005 and FY 2006, and futures price forecasts for FY 2007 through FY 2009 for metals mined in Montana. The percentage change between years in average prices is shown in Table 3 because it is the change in prices that is applied to the Montana prices. Prices received by mines in Montana differ from the prices established in global markets because of transportation costs, product purity, and contract terms. The forecast uses actual prices reported on FY 2006 tax returns as the starting point. It assumes that the prices received by the mines in FY 2006 will change at the same rate as the forecast global prices.

Table 3
Actual and Projected Market Metal Prices

Metal	FY 2005 Actual	% Change	FY 2006 Actual	% Change	FY 2007 Projected	% Change	FY 2008 Projected	% Change	FY 2009 Projected	% Change
	Spot Price / Futures Market Price									
Gold (oz)	$422.23	8%	$525.12	24%	**$604.28**	**15%**	**$627.72**	**4%**	**$660.17**	**5%**
Silver (oz)	$6.94	22%	$9.25	33%	**$11.86**	**28%**	**$12.36**	**4%**	**$12.50**	**1%**
Platinum (oz)	$854.52	8%	$1,017.66	19%	**$1,142.50**	**12%**	**$1,178.00**	**3%**	**$1,178.00**	**0%**
Palladium (oz)	$201.26	-9%	$265.57	32%	**$325.15**	**22%**	**$322.87**	**-1%**	**$322.87**	**0%**
Rhodium (oz)	$1,403.44	160%	$3,358.49	139%	**$3,358.49**	**0%**	**$3,358.49**	**0%**	**$3,358.49**	**0%**
Molybdenum (lbs)	$27.36	127%	$27.39	0%	**$27.00**	**-1%**	**$27.26**	**1%**	**$27.26**	**0%**
Copper (lbs)	$1.43	21%	$2.29	60%	**$3.41**	**49%**	**$3.14**	**-8%**	**$2.85**	**-9%**
Nickel (lbs)	$6.77	22%	$7.02	4%	**$13.10**	**87%**	**$10.49**	**-20%**	**$10.49**	**0%**
Lead (lbs)	$0.44	38%	$0.49	11%	**$0.55**	**14%**	**$0.55**	**0%**	**$0.55**	**0%**
Zinc (lbs)	$0.53	22%	$0.96	81%	**$1.53**	**59%**	**$1.35**	**-12%**	**$1.35**	**0%**

Taxable Value of Production

The tax base for the metalliferous mines license tax is the gross value of output as it leaves the mine, less exemptions and deductions. The first $250,000 of each producer's output is exempt from the tax. Producers are also allowed to deduct certain smelting and refining costs and the costs of transportation to the smelter or refinery.

Table 4 shows the calculation of taxable value. The market values shown are the product of the production estimates in Table 2 and mine prices projected from the global prices in Table 3. The market value for the gold-silver-platinum group is added to the market value of the base metals group market value. Total exemptions and deductions are subtracted from the market values to get total taxable value. Taxable value is projected to increase to over $1,000 million in FY 2007 and stay above $1,000 million through FY 2009.

Table 4
Taxable Value of Metal Mines Production
($ millions)

Fiscal Year	Market Value Gold, Silver Platinum		Market Value Other Metals		Exemptions and Deductions		Taxable Value
A 2004	$315.047	+	$102.772	-	$35.062	=	$382.756
A 2005	$344.799	+	$310.163	-	$29.713	=	$625.249
A 2006	$376.267	+	$416.756	-	$30.668	=	$762.356
F 2007	**$498.520**	+	**$583.797**	-	**$34.565**	=	**$1,047.752**
F 2008	**$499.831**	+	**$636.403**	-	**$36.228**	=	**$1,100.006**
F 2009	**$537.676**	+	**$546.922**	-	**$37.848**	=	**$1,046.750**

Tax Revenue

Concentrate, which is unsmelted ore that may have undergone mechanical processing, is taxed at a rate of 1.81%. Smelting the ore produces matte, dore, and bullion. In matte, the metal is still chemically combined with other elements. Dore is a mixture of elemental metals. Bullion is pure metal. Matte, dore, and bullion are taxed at a rate of 1.6%.

Future tax liability is estimated by multiplying the total taxable value by the average tax rate of the metals being produced. Table 5 shows this calculation and the total tax revenue. The average tax rate increases each year from FY 2007 through FY 2009 because of increased concentrate production relative to the production of matte, dore, and bullion.

Table 5
Calculation of Metal Mines Tax Revenue
($ millions)

Fiscal Year	Taxable Value		Average Tax Rate		Tax Revenue	Percent Change
A 2004	$382.756	X	1.66%	=	$6.342	(13.23%)
A 2005	$625.249	X	1.71%	=	$10.694	68.62%
A 2006	$762.356	X	1.72%	=	$13.102	22.51%
F 2007	**$1,047.752**	X	**1.72%**	=	**$18.063**	**37.87%**
F 2008	**$1,100.006**	X	**1.74%**	=	**$19.116**	**5.83%**
F 2009	**$1,046.750**	X	**1.72%**	=	**$18.007**	**(5.80%)**

Total tax revenue is projected to increase 38% to $18.063 million in FY 2007 and continue increasing to $19.116 million in FY 2008. The increase in revenue is primarily due to increased production for the primary metals and higher prices for most metals. Revenue is projected to decrease slightly in FY 2009 to $18.007 million as one mine plans to cease operation in December FY 2009.

Revenue Allocation

Table 6 shows the actual and projected metal mines license tax and allocations for FY 2006 through FY 2009. The general fund allocation decreased from 58% to 57% in FY 2006, and the impacted counties allocation increased from 24% to 25% (HB 700, 2005 Session).

Table 6
Total Collections and Allocation of Metal Mines Tax
($ millions)

Account	Allocation Percentage	Actual FY 2006	Projected FY 2007	Projected FY 2008	Projected FY 2009
General Fund	57.0%	$7.468	**$10.296**	**$10.896**	**$10.264**
Hard-Rock Mining Impact Trust	2.5%	$0.328	**$0.452**	**$0.478**	**$0.450**
Impacted Counties	25.0%	$3.275	**$4.516**	**$4.779**	**$4.502**
Reclamation and Development Grants	7.0%	$0.917	**$1.264**	**$1.338**	**$1.260**
Hard-Rock Mining Reclamation Debt Service	8.5%	$1.114	**$1.535**	**$1.625**	**$1.531**
Total Collections	100.0%	$13.102	**$18.063**	**$19.116**	**$18.007**

General fund revenue from the metal mines license tax is projected be $10.296 million in FY 2007, $10.896 million in FY 2008, and $10.264 million in FY 2009.

Data Sources

Production through FY 2006 is from the metalliferous mines tax returns. Estimates of future production are from the mining companies in the state with operations large enough to pay metal mines license tax. Historical metal spot prices are from the U.S. Geological Survey's Mineral Industry Surveys, the Commodity Exchange in New York (COMEX), and the London Metals Exchange. Futures prices are from the New York Mercantile Exchange (NYMEX) and the London Metals Exchange, as posted on the Internet by the exchanges.

ELECTRICAL ENERGY PRODUCER'S LICENSE TAX

Revenue Description

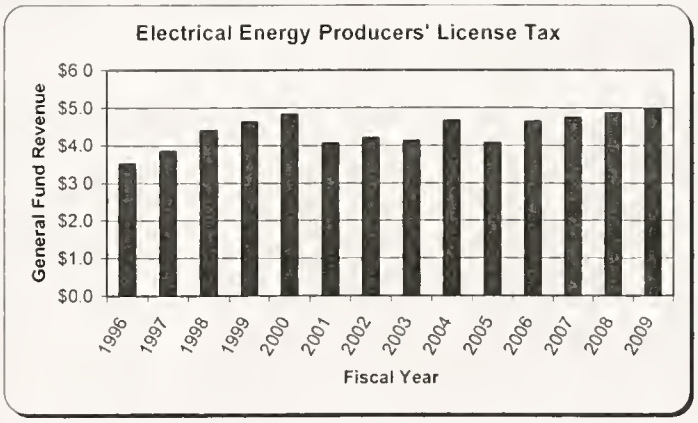
Title 15, Chapter 51, MCA, provides for the imposition and collection of the electrical energy producers' license tax. Enacted in 1933, the tax is levied at a rate of $.0002 per kilowatt-hour on all electricity generated, manufactured, or produced in Montana for barter, sale, or exchange other than for plant use. All electrical energy producers' license tax revenue is allocated to the general fund.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from the electrical energy producers' license tax for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Electrical Energy Producers' License Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	3.520	-9.41%
A 1997	3.849	9.34%
A 1998	4.402	14.36%
A 1999	4.618	4.92%
A 2000	4.829	4.56%
A 2001	4.058	-15.97%
A 2002	4.197	3.44%
A 2003	4.130	-1.61%
A 2004	4.661	12.86%
A 2005	4.074	-12.59%
A 2006	4.645	13.99%
F 2007	**4.744**	**2.13%**
F 2008	**4.859**	**2.43%**
F 2009	**4.977**	**2.43%**



Electrical energy producers' license tax general fund revenue is estimated to increase 2.13% in FY 2007, 2.43% in FY 2008, and 2.43% in FY 2009.

Forecast Methodology and Projection Calculation

The revenue estimate is made in two steps. The first step is projecting the taxable kilowatt-hours. The second step is multiplying the total taxable kilowatt-hours by the tax rate to get the projected tax revenue.

Estimate Taxable Kilowatt-Hours

Table 2 shows historical taxable kilowatt-hours for FY 1997 through FY 2006 and forecast taxable kilowatt-hours for FY 2007 through FY 2009. Although there have been many fluctuations, since FY 1997 there is a general increasing trend in taxable kilowatt-hours. Since FY 1997, kilowatt-hours of electricty produced in Montana have increased an average of 2.43%. This average growth rate is used to forecast taxable kilowatt-hours for FY 2007 through FY 2009.

Taxable kilowatt-hours are projected to be 23.718 million in FY 2007, 24.293 million in FY 2008, and 24.883 million in FY 2009.

Table 2
Taxable Kilowatt-Hours
(millions)

Fiscal Year	Taxable kWh	% Change
A 1997	20,160	9.31%
A 1998	22,015	9.20%
A 1999	22,265	1.14%
A 2000	21,510	-3.39%
A 2001	20,444	-4.95%
A 2002	21,643	5.86%
A 2003	21,069	-2.65%
A 2004	21,410	1.62%
A 2005	23,065	7.73%
A 2006	23,156	0.39%
Average Growth		**2.43%**
F 2007	**23,718**	**2.43%**
F 2008	**24,293**	**2.43%**
F 2009	**24,883**	**2.43%**

Calculate Tax Revenue

The second step of the electrical energy producers' license tax is to multiply the forecast kilowatt-hours from Table 2 by $0.0002 per kilowatt-hour or $200 per million kilowatt-hours. The electrical energy tax revenue is projected to be $4.744 million in FY 2007, $4.859 million in FY 2008, and $4.977 million in FY 2009.

Table 3
Electrical Energy - Revenue Calculation
FY 2007 - FY 2009

Fiscal Year	kWh	x	Tax Rate Per Million kWh	=	Total Revenue
F 2007	23,718	x	$200	=	$4,743,584
F 2008	24,293	x	$200	=	$4,858,650
F 2009	24,883	x	$200	=	$4,976,508

Data Sources

Data is from Department of Revenue Report #R0720111 and SABHRS Report MTGL0109.

WHOLESALE ENERGY TRANSACTION TAX

Revenue Description

Title 15, Chapter 72, MCA, provides for the imposition and collection of the wholesale energy transaction tax at a rate of 0.015 cents per kilowatt-hour (kWh) on electricity transmitted by a transmission service provider in the state. Power generated by the U.S. government is exempt. This tax was effective January 1, 2000 and is deposited 100% in the state general fund.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from the wholesale energy transaction tax for FY 2000 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Wholesale Energy Transaction Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 2000	$1.895	
A 2001	$3.503	84.88%
A 2002	$2.906	-17.05%
A 2003	$3.532	21.53%
A 2004	$3.293	-6.76%
A 2005	$3.370	2.33%
A 2006	$3.813	13.15%
F 2007	**$3.686**	**-3.34%**
F 2008	**$3.757**	**1.92%**
F 2009	**$3.829**	**1.92%**

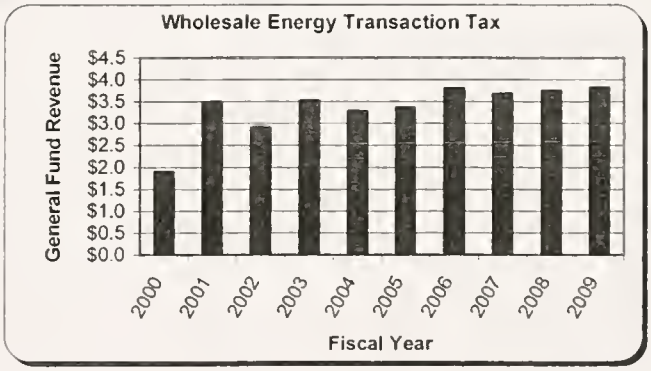


Table 1 indicates that revenue has been variable since FY 2001. Growth of taxable kilowatt-hours, shown in Table 2 on the next page, is more consistent over time. Several items account for this difference:

- FY 2000 revenue is only a half-year amount, and the accrual was $189,611 high.
- In FY 2001, the year-end estimated accrual was $174,357 too low, there was a tax overpayment of $425,801, and there were approximately $42,000 in miscellaneous adjustments.
- In FY 2002 a refund of $425,801 was made for the overpayment in FY 2001.

- The FY 2003 accrual was $69,000 too low.
- In FY 2004, there was a revenue adjustment, which reduced FY 2004 revenue by $236,000 in SABHRS to account for a revised report on FY 2003 kilowatt-hour production, and the FY 2004 year-end accrual was $109,247 above actual receipts.
- In FY 2006 the accrual was $196,642 high.

When the aforementioned adjustments are removed from actual collections, a more stable amount of revenue was collected each year. Based on the estimated change in taxable kilowatt-hours, revenue is expected to fall slightly in FY 2006 to $3.686 million, and then grow 1.92% each year in FY 2006 and FY 2007.

Forecast Methodology and Projection Calculation

There are two steps to estimating the wholesale energy transaction tax: estimating the taxable kilowatt-hours and calculating the tax.

Taxable Kilowatt Hours

The taxable kilowatt-hours in Montana have been increasing every year since FY 2000. Table 3 shows this consistent growth from FY 2001 through FY 2006. The average annual growth in taxable kilowatt-hours is shown to be 1.92%.

Table 2
Taxable Kilowatt-Hours for Wholesale Energy Tax
FY 2000 through FY 2006

Fiscal Year	Quarter 1 July - Sept.	Quarter 2 Oct. - Dec.	Quarter 3 Jan.- March	Quarter 4 April - June	Fiscal Year Total	% Change
A 2000	---------0---------	---------0---------	6,616,241,959	5,284,198,270	11,900,440,229	
A 2001	5,419,469,746	5,943,776,467	5,696,989,674	4,870,218,101	21,930,453,988	-
A 2002	5,691,480,747	5,647,275,070	5,162,383,799	5,576,221,735	22,077,361,351	0.67%
A 2003	5,686,251,696	5,460,463,017	5,828,994,674	5,498,883,622	22,474,593,009	1.80%
A 2004	6,169,847,022	5,830,473,451	5,889,521,188	5,346,097,294	23,235,938,955	3.39%
A 2005	5,776,286,339	6,077,002,400	5,856,332,958	5,867,051,380	23,576,673,077	1.47%
A 2006	5,997,662,413	6,190,379,290	6,291,030,598	5,633,278,479	24,112,350,780	2.27%
			Average Growth FY 2001 - FY 2006			**1.92%**
F 2007	**6,112,760,090**	**6,309,175,285**	**6,411,758,134**	**5,741,383,474**	**24,575,076,982**	**1.92%**
F 2008	**6,230,066,539**	**6,430,251,025**	**6,534,802,482**	**5,851,563,049**	**25,046,683,096**	**1.92%**
F 2009	**6,349,624,149**	**6,553,650,260**	**6,660,208,104**	**5,963,857,017**	**25,527,339,530**	**1.92%**

This average growth rate is used to forecast the yearly taxable kilowatt-hours in FY 2007 through FY 2009. Taxable kilowatt-hours are projected to be 24,575 million in FY 2007, 25,047 million in FY 2008, and 25,527 million in FY 2009.

Calculation of Projected Revenue

As shown in Table 3, the tax is calculated by multiplying estimated kilowatt-hours by the current tax rate of $0.0015. Wholesale energy transaction tax revenue is estimated at $3.686 million in FY 2007, $3.757 million in FY 2008, and $3.829 million in FY 2009.

Table 3
Wholesale Energy Transaction Tax
General Fund Revenue

Fiscal Year	Estimated kWh	x	Tax Rate	=	Total Revenue
2007	24,575,076,982	x	$0.00015	=	$3,686,262
2008	25,046,683,096	x	$0.00015	=	$3,757,002
2009	25,527,339,530	x	$0.00015	=	$3,829,101

Data Sources

The Montana Department of Revenue provided the taxable kilowatt-hours by quarter. Tax collections were obtained from SABHRS.

INTEREST RATE INTRODUCTION

Revenue Description

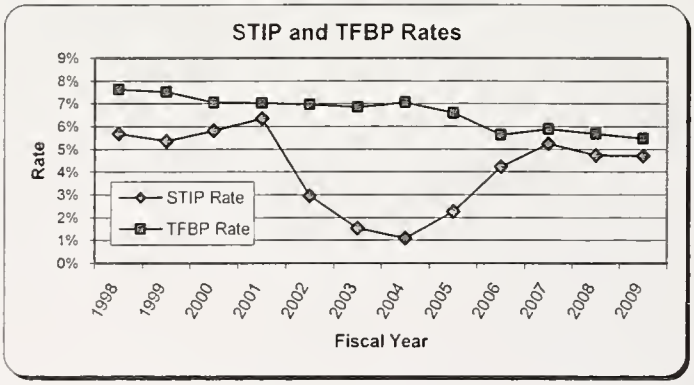
The Board of Investments (board) manages trust fund balances and invests agency cash balances for the state. The board invests most of the agency cash and a small part of trust fund balances in the short term investment pool (STIP). The STIP is managed like a money market account to allow daily deposits and withdrawals while still paying interest. The board also invests trust fund balances in the trust fund bond pool (TFBP). The TFBP holds a portfolio consisting primarily of long-term bonds and is managed to provide consistent interest earnings. The forecast yields for STIP and TFBP are used in the interest estimates from the treasurer's cash account, the various coal trusts, the common school trust, and several other funds.

Historical and Projected Interest Rates

Table 1 shows actual annual percentage interest rates of STIP and TFBP in FY 1998 through FY 2006 and projections for FY 2007 through FY 2009.

Table 1
Short Term Investment Pool and Trust Fund Bond Pool Rates

Fiscal Year	STIP	TFBP
A 1998	5.68%	7.63%
A 1999	5.36%	7.51%
A 2000	5.83%	7.06%
A 2001	6.35%	7.04%
A 2002	2.95%	6.96%
A 2003	1.52%	6.84%
A 2004	1.10%	7.06%
A 2005	2.28%	6.59%
A 2006	4.25%	5.63%
F 2007	**5.25%**	**5.88%**
F 2008	**4.74%**	**5.68%**
F 2009	**4.72%**	**5.46%**



The STIP yield decreased substantially from FY 2001 through FY 2004 due to a collapse in short-term interest rates. Short-term interest rates started rising in 2005 causing a 1.18% STIP yield increase up to 2.28% in FY 2005 and a 1.97% increase up to 4.25% in FY 2006. Short-term interest rates are projected to continue rising through 2007; thus the STIP rate is projected to increase to 5.25% in FY 2007. The STIP rate is then forecast to decrease to 4.74% in FY 2008 and 4.72% in FY 2009.

The TFBP yield decreased an average of 0.16% per year from FY 1998 through FY 2003. This decline occurred because older bonds with relatively high interest rates were gradually replaced by bonds with lower interest rates. Thus, the TFBP interest rate increase of 0.22% in FY 2004 was due to large capital gains from the sale of the older bonds with higher interest rates. The large decrease in yield from 6.59% in FY 2005 to 5.63% in FY 2006 was due to unusually large capital gains in FY 2005.

The TFBP yield is forecast to increase slightly in FY 2007 and then decrease in FY 2008 through FY 2009 due to a lower average bond interest rate in the TFBP portfolio. The average interest rate is expected to decline as the older bonds in the portfolio are replaced with newer bonds with lower interest rates. Capital gains are expected to return to pre-2004 levels because the sale of the older bonds with high interest rates is decreasing.

Forecast Methodology

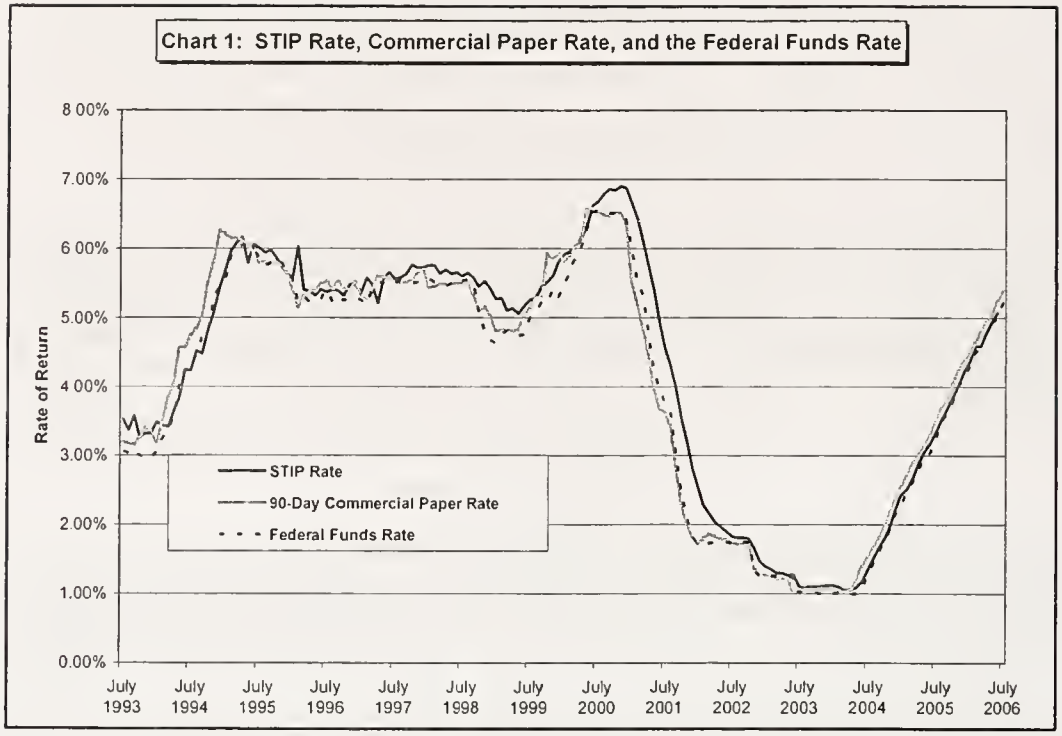
The STIP interest rate is projected by following two steps. First, the forecast interest rates for commercial paper and the federal funds rate are collected from Global Insight. Second, the forecast interest rates are included in a statistical model to forecast the STIP rate.

The TFBP interest rate is projected in the following steps. First, the interest rate for TFBP income is projected using a statistical model. Second, the capital gains income rate is projected. Third, the interest rate for the combined smaller sources of income is projected. Fourth, the three interest rates are added together and the administrative cost ratio is subtracted from the total to get the projected TFBP interest rate.

Short Term Investment Pool (STIP)

STIP dollars are invested in short-term investments. About 70% of the STIP portfolio is composed of commercial paper. Variable or floating rate bonds make up about 25% of the portfolio and about 5% of STIP funds are invested in repurchase agreements and corporate fixed bonds. The STIP interest rate is the composite return on these investments.

As shown in Chart 1, the STIP rate moves with the commercial paper rate and the federal funds rate over time. This occurs because commercial paper is about 70% of STIP investment and the variable rate bonds have interest rates similar to the federal funds rate.



Estimates of commercial paper rates and the federal funds rate from Global Insight are used to predict future STIP rates. The estimated rates are included in a statistical model that forecasts the STIP rate based on the relationship of the commercial paper rate and federal funds rate with the STIP rate over time.

Table 2 shows the actual commercial paper rate, the federal funds rate, and STIP rate from FY 2001 through FY 2006. Table 2 also shows the Global Insight forecast of the commercial paper rate and the federal funds rate for FY 2007 through FY 2009, and the STIP rate forecast from the statistical model, which is 5.25% in FY 2007, 4.74% in FY 2008, and 4.72% in FY 2009.

Table 2
Average Annual Commercial Paper, Federal Funds, and STIP Rates

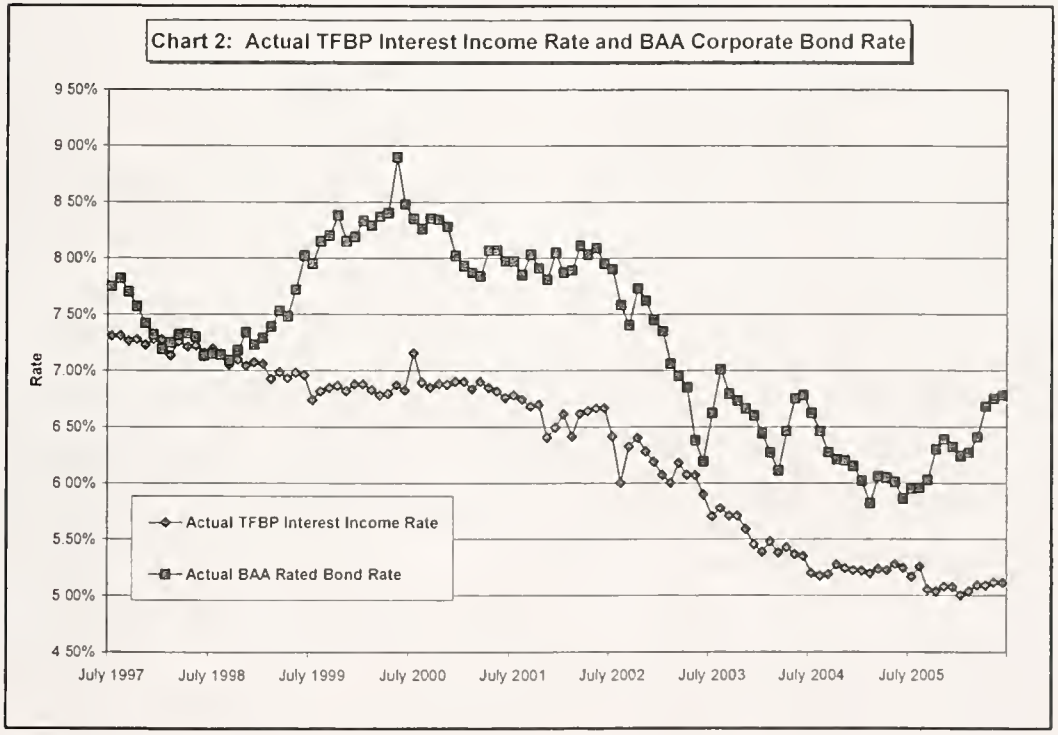
Fiscal Year	Average Annual Commercial Paper Rate	Average Annual Federal Funds Rate	Average Annual STIP Rate
A 2001	5.54%	5.73%	6.35%
A 2002	2.23%	2.28%	2.95%
A 2003	1.40%	1.42%	1.52%
A 2004	1.09%	1.01%	1.10%
A 2005	2.43%	2.20%	2.28%
A 2006	4.40%	4.20%	4.25%
F 2007	**5.15%**	**5.17%**	**5.25%**
F 2008	**4.58%**	**4.54%**	**4.74%**
F 2009	**4.59%**	**4.56%**	**4.72%**

Trust Fund Bond Pool (TFBP)

TFBP income is earned through five sources. These sources are interest income, net accretion, capital gains, securities lending income, and miscellaneous income. The TFBP rate is the ratio of total income to total assets. To forecast TFBP rates, the ratio of income to assets is forecast for each of the five sources of investment income and the administrative expense is subtracted from the total of the income ratios.

Interest Income

The largest TFBP income source is interest paid on bonds within the bond pool, which accounts for 80% to 95% of annual TFBP income. Bonds in the TFBP must be investment grade or better, so the interest rate on new purchases for the pool tends to follow the current rate of BAA bonds. "BAA" is a rating attached to bonds to identify them as investment grade bonds of moderate risk. As seen in Chart 2, the TFBP rate follows small movements in the BAA bond rate.



The Global Insight forecast of the BAA bond rate is used in the statistical model to project the TFBP interest income rate. The statistical model uses time series analysis to account for the historical movements in the BAA bond rate and the TFBP interest income rate in the forecast. The statistical model also includes a 10-year moving

average of BAA bond rate and the TFBP rate because the TFBP portfolio consists of bonds bought over a period of time. Chart 3 shows the 10-year average BAA bond rate from FY 1997 through FY 2006 and the actual TFBP interest income rate for the same period.

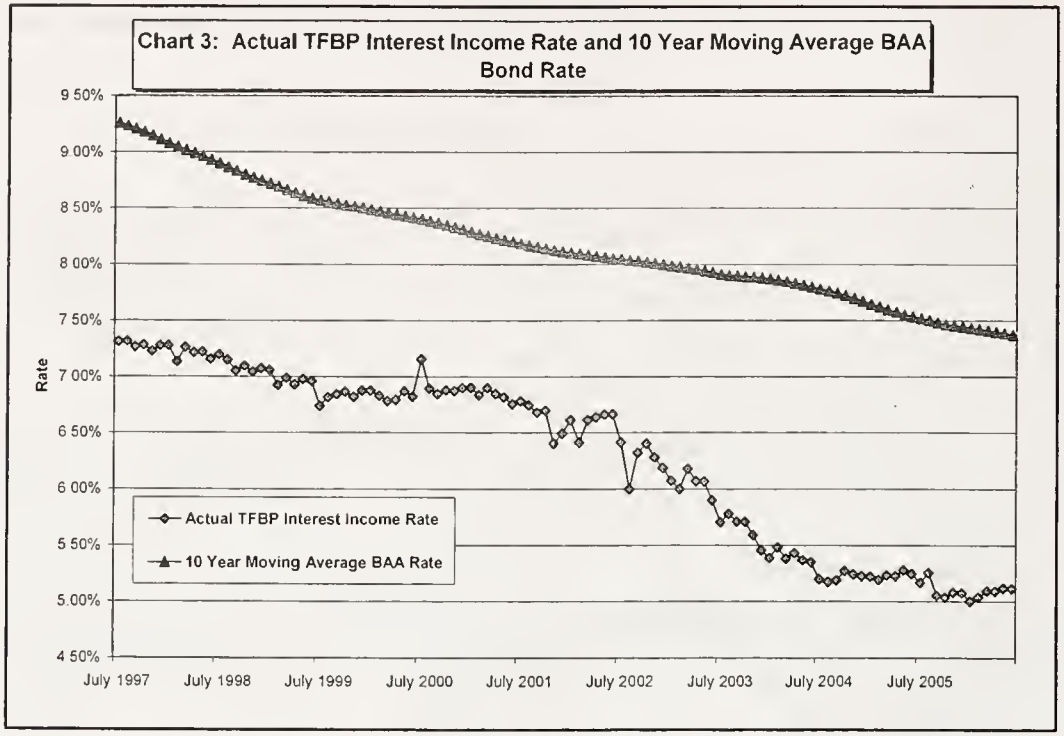


Table 3 shows the BAA bond rate, the 10-year average BAA bond rate, and the actual TFBP interest income rate from FY 2001 through FY 2006. It also shows Global Insight's projected BAA bond rate, the projected 10-year moving average BAA bond rate, and the TFBP interest income rate forecast from the statistical model.

The TFBP interest income rate is projected to decrease to 5.081% in FY 2007, and then to 4.990% in FY 2008. This decline is primarily caused by projected decreases in the ten-year moving average BAA bond rate. The TFBP interest income rate is forecast to increase in FY 2009 to 5.011%

Table 3
TFBP Interest Income, Current BAA Bond, and 10-Year Moving Average BAA Bond Rates

Fiscal Year	Current BAA Bond Rate	10-Year Average BAA Bond Rate	TFBP Interest Income Rate
A 2001	8.113%	8.301%	6.885%
A 2002	7.963%	8.114%	6.618%
A 2003	7.205%	7.992%	6.159%
A 2004	6.602%	7.867%	5.528%
A 2005	6.144%	7.660%	5.226%
A 2006	6.340%	7.442%	5.096%
F 2007	**6.451%**	**7.286%**	**5.081%**
F 2008	**6.590%**	**7.146%**	**4.990%**
F 2009	**7.193%**	**7.104%**	**5.011%**

as projected increases in current BAA bond rate from FY 2006 through FY 2009 cause the ten-year moving average BAA bond yield to increase in FY 2009.

Capital Gains Income

Capital gains or capital losses are realized when bonds are sold from the pool. A capital gain is the difference between the book price and the sale price of the bond. The book price of the bond is the purchase price adjusted for amortization. When the average coupon rate of new issues decreases, the coupons of bonds currently held in the portfolio appear more attractive, so the market prices of these older bonds rise. When the average coupon rate of new issues increases, the interest rates of bonds currently held appear less attractive and their prices fall. Thus, capital gains income tends to move inversely with the average interest rate of new issues of similar risk. As shown in Table 4, capital gains income is usually a small proportion of bond pool income, although in FY 2004 and FY 2005 capital gains made up more than 14% of TFBP income. In FY 2001 the bond pool sustained capital losses of $1.747 million, or about a negative 2% of total investment income. Capital gains have averaged 4.5% of total investment income since 1999 and were only 0.92% of total income in FY 2006.

Table 4
TFBP Capital Gains Income

Fiscal Year	Capital Gains Income	% of Total Income
A 1999	4,558,662	5.90%
A 2000	697,222	0.85%
A 2001	(1,747,406)	(2.08%)
A 2002	144,583	0.17%
A 2003	1,115,423	1.37%
A 2004	12,315,172	14.19%
A 2005	12,452,243	14.59%
A 2006	692,463	0.92%

Using the ten-year average BAA bond rate as a "proxy" or substitute for the TFBP interest rate, and current BAA bond rate as a proxy for the current market interest rate, capital gains should be more likely to occur when the ten-year average rate is greater than the current interest rate. This is used in a statistical model that projects the capital gains interest rate using the difference in the forecast ten-year average BAA bond rate and the forecast current BAA bond rate since 1996. Table 5 shows the difference in the rates and the actual and projected TFBP capital gains interest rate from FY 2001 through FY 2009.

Table 5
TFBP Difference in Bond Rates and Capital Gains Interest Rate

Fiscal Year	Ten-Year Average BAA Bond Rate		Current BAA Bond Rate		Difference in Current BAA and Ten-Year Average Rates	Capital Gains Interest Rate
A 2001	8.301%	-	8.113%	=	0.188%	(0.146%)
A 2002	8.114%	-	7.963%	=	0.151%	0.002%
A 2003	7.992%	-	7.205%	=	0.787%	0.093%
A 2004	7.867%	-	6.602%	=	1.265%	1.006%
A 2005	7.660%	-	6.144%	=	1.516%	0.972%
A 2006	7.442%	-	6.340%	=	1.102%	0.052%
F 2007	**7.286%**	-	**6.451%**	=	**0.835%**	**0.307%**
F 2008	**7.146%**	-	**6.590%**	=	**0.556%**	**0.204%**
F 2009	**7.104%**	-	**7.193%**	=	**(0.089%)**	**(0.033%)**

The interest rate is the ratio of capital gains income to total TFBP assets. The capital gains interest rate increased to around 1% with the increase in capital gains income in FY 2004 and FY 2005. The interest rate dropped to pre-FY 2004 levels in FY 2006 to 0.052% and the capital gains interest rate is forecast by the statistical model to increase to 0.307% in FY 2007, and then decrease to 0.204% in FY 2008, and -0.033% in FY 2009.

Small Income Sources

As shown in Table 6, TFBP has three small sources of income: amortization income, securities lending income, and miscellaneous income. The small income sources do not follow a trend of predicted interest rates, so they are forecast using the most current rate or projecting an average of previous rates.

Amortization is the difference between par value and the price paid on a bond amortized over the expected life of the bond. The amortization income rate is the ratio of amortization income to assets. The rate of return was 0.497% in FY 2006 and is forecast to be 0.506% in FY 2007 due to an increase in amortization income in the first quarter of FY 2007. The rate of return is forecast to stay at the average FY 2006 level of 0.497% though FY 2008 and FY 2009.

Table 6
Small Income Sources
Interest Rates

Fiscal Year	Amort Income Rate		Securities Lending Income Rate		Misc Income Rate		Total Interest Rate
A 2001	0.302%	+	0.016%	+	0.000%	=	0.319%
A 2002	0.325%	+	0.033%	+	0.000%	=	0.357%
A 2003	0.575%	+	0.012%	+	0.020%	=	0.607%
A 2004	0.521%	+	0.013%	+	0.005%	=	0.539%
A 2005	0.394%	+	0.014%	+	0.004%	=	0.412%
A 2006	0.497%	+	0.007%	+	0.005%	=	0.509%
F 2007	**0.506%**	**+**	**0.006%**	**+**	**0.004%**	**=**	**0.516%**
F 2008	**0.497%**	**+**	**0.007%**	**+**	**0.005%**	**=**	**0.509%**
F 2009	**0.497%**	**+**	**0.007%**	**+**	**0.005%**	**=**	**0.509%**

Securities lending income is a minor source of bond pool investment income. A small number of bond pool securities are loaned to brokers and other entities to provide security for transactions. Fees are charged for the use of these securities and collateral is collected to protect the pool from the associated investment risk. Income from investment of this collateral combined with the lending fees make up lending income. This income generally contributes less than 0.5% of bond pool annual investment income, with a five-year average of 0.25%. The FY 2006 average lending interest rate of 0.007% is projected to continue through FY 2009, with a slight decrease in FY 2007 to 0.006% due to decreased lending income in the first quarter of FY 2007.

Miscellaneous income is a very small and sporadic income source, averaging only 0.09% of annual income. The miscellaneous income rate is projected to remain at the FY 2006 level of .005% through FY 2009, with a slight decrease to 0.004% in FY 2007 due to decreased miscellaneous income receipts in early FY 2007.

The total interest rate for small sources of TFBP income is projected to increase slightly in FY 2007 to 0.516%. The rate is then projected to decrease to 0.509% in FY 2008 and FY 2009.

Trust Fund Bond Pool Interest Rate

TFBP rate of return is the sum of rates of return from the income sources less the administrative expense ratio. The ratio of administrative expense to total assets is relatively constant within a year and increased in FY 2006 due to increased consulting expenses. This ratio is projected to stay at the FY 2006 level of 0.024% in FY 2007 through FY 2009. Table 5 shows actual and projected TFBP rates from FY 2001 through FY 2009.

Table 7
Trust Fund Bond Pool
Interest Rate

Fiscal Year	Interest Income Rate		Capital Gains Income Rate		Small Income Sources Rate		Admin Expense Ratio		TFBP Interest Rate
A 2001	6.885%	+	(0.146%)	+	0.319%	-	0.016%	=	7.04%
A 2002	6.618%	+	0.002%	+	0.357%	-	0.020%	=	6.96%
A 2003	6.159%	+	0.093%	+	0.607%	-	0.019%	=	6.84%
A 2004	5.528%	+	1.006%	+	0.539%	-	0.017%	=	7.06%
A 2005	5.226%	+	0.972%	+	0.412%	-	0.017%	=	6.59%
A 2006	5.096%	+	0.052%	+	0.509%	-	0.024%	=	5.63%
F 2007	**5.081%**	**+**	**0.307%**	**+**	**0.516%**	**-**	**0.024%**	**=**	**5.88%**
F 2008	**4.990%**	**+**	**0.204%**	**+**	**0.509%**	**-**	**0.024%**	**=**	**5.68%**
F 2009	**5.011%**	**+**	**(0.033%)**	**+**	**0.509%**	**-**	**0.024%**	**=**	**5.46%**

The projected TFBP rate increases slightly to 5.88% in FY 2007 and then decreases each year from FY 2008 through FY 2009. The 0.2 percentage point decrease in FY 2008 and the 0.22 percentage point decrease in FY 2009 are primarily caused by small reductions in the interest income rate in FY 2007 and capital losses in FY 2009.

Data Sources

The Board of Investments and State Street Bank provided monthly reports on STIP and TFBP investment and earnings. Forecast rates of return on commercial paper and BAA bonds are from Global Insight. Historical interest rates on 90-day commercial paper and BAA-rated corporate bonds are from the Federal Reserve website: http://www.federalreserve.gov/releases/h15/data.htm.

PERMANENT COAL TRUST FUND INTEREST

Revenue Description

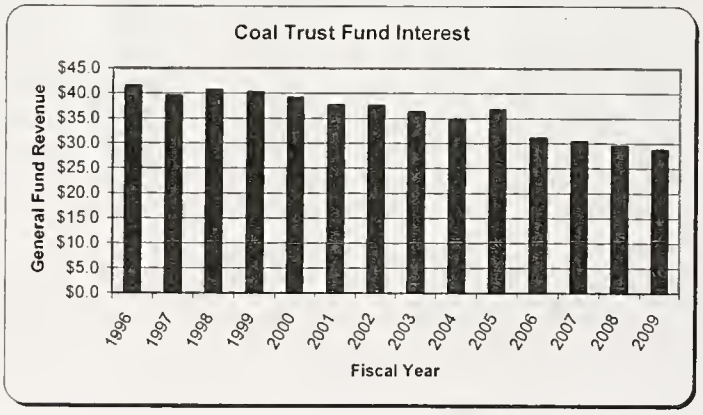
Article 1X, Section 5 of the Montana Constitution established the permanent trust fund into which at least half of coal severance tax revenue must be deposited. Under current law, half of the severance tax revenue is deposited in the trust fund, which is divided into several funds with different purposes. The trust funds are described in more detail in the *Introduction to the Coal Trusts*. Interest earnings from the coal severance tax permanent fund and the coal severance tax bond fund are allocated to the general fund.

Historical and Projected Revenue

Table 1 shows actual interest earnings allocated from the permanent fund and the bond fund to the general fund from FY 1996 through FY 2006 and the revenue forecasts for FY 2007 through FY 2009.

Table 1
Coal Trust Fund Interest
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	41.532	13.24%
A 1997	39.554	-4.76%
A 1998	40.746	3.01%
A 1999	40.306	-1.08%
A 2000	39.195	-2.76%
A 2001	37.660	-3.92%
A 2002	37.605	-0.14%
A 2003	36.298	-3.48%
A 2004	34.907	-3.83%
A 2005	36.752	5.28%
A 2006	31.106	-15.36%
F 2007	**30.431**	**-2.17%**
F 2008	**29.550**	**-2.89%**
F 2009	**28.839**	**-2.41%**



General fund revenue from the permanent and bond fund fell every year from FY 1998 through FY 2004. This was primarily caused by declining long-term interest rates. In FY 2005, revenue from the coal trust increased because there were capital gains of $0.9 million and a $1.5 million increase in loan interest income, which offset declines in bond interest income. The $20 million transfer to the big sky economic development fund decreased income in FY 2006. Between FY 2007 and FY 2009, interest earnings are projected to be lower than current levels because long-term interest rates on new bonds are projected to be less than interest rates on bonds currently in the portfolio.

Forecast Methodology and Projection Calculation

Forecasting the general fund revenue from the coal severance tax permanent fund and the coal severance tax bond fund is done as follows.

1. Project the annual average invested balance of each fund.
2. Project the annual average rate of return and interest income for the coal tax permanent fund.
3. Project the coal tax bond fund Income.
4. Project other income and administrative expenses.
5. Sum all of the income and subtract administrative expenses from total income.

Average Permanent Fund Balance

Prior to FY 2000, the permanent fund received 25% of the coal severance tax revenue. The permanent fund did not receive tax revenue after the treasure state endowment regional water system fund was created (HB 260 and SB 220, 1999 Session). This continued until FY 2004 when the permanent fund was allocated 12.5% of the coal tax revenue (HB 610, 2001 Session). Pursuant to the 2005 legislative session, the permanent fund does not receive any coal severance tax revenue from FY 2006 through FY 2016 as HB 249 diverted the permanent fund share of coal tax receipts to the big sky economic development fund.

The permanent fund balance is invested in loans, the short term investment pool (STIP), and the trust fund bond pool (TFBP). Table 2 shows actual and projected balances by investment type for FY 2001 through FY 2009.

Table 2
Coal Trust Permanent Fund Average Balance by Investment Type
($ millions)

Fiscal Year	Loan Balance	% Total	STIP Balance	% Total	TFBP Balance	% Total	Average Balance
A 2001	$129.505	24%	$13.851	3%	$401.252	74%	$544.608
A 2002	$144.971	27%	$28.797	5%	$366.605	68%	$540.374
A 2003	$183.674	34%	$18.399	3%	$340.951	63%	$543.024
A 2004	$161.092	30%	$32.432	6%	$350.676	64%	$544.200
A 2005	$169.397	31%	$20.887	4%	$358.510	65%	$548.794
A 2006	$164.704	31%	$41.878	8%	$325.540	61%	$532.123
F 2007	**$178.470**	**34%**	**$26.763**	**5%**	**$327.023**	**61%**	**$532.256**
F 2008	**$180.597**	**34%**	**$25.000**	**5%**	**$326.665**	**61%**	**$532.262**
F 2009	**$180.597**	**34%**	**$25.000**	**5%**	**$326.665**	**61%**	**$532.262**

The permanent fund balance has remained stable since FY 2001 with the exception of the $16.6 million decline in FY 2006. This reflects the $20 million transfer to the big sky economic development fund, which was offset some by coal tax deposits. The permanent fund balance is projected to remain at $532 million through FY 2009.

Up to 25% of the combined balance of the permanent fund, the treasure state endowment fund, and the treasure state endowment regional water system fund is to be invested in Montana companies (17-6-305, MCA). These investments generally take the form of fixed rate loans to private companies. All commercial loans are made from the permanent fund, so they can make up more than 25% of the permanent fund portfolio. Loans are also made from the permanent fund to public, non-commercial borrowers. These borrowers include state departments, local governments, and other in-state programs.

The amount of money invested in commercial loans decreased slightly to $164.704 million in FY 2006 because of premature loan payments. The Board of Investments expects loan investment to increase to $178.470 million and become 34% of total permanent fund investment in FY 2007. The loan investment is projected to stay at 34% or $180.597 million from FY 2008 to FY 2009.

The average balance of investments in STIP increased $21 million in FY 2006. Falling interest rates caused many premature loan payments, which increased the average balance because the payments were held in STIP. The balance is expected to return to previous levels in FY 2007; thus the average STIP investment is projected to decrease to $26.763 million in FY 2007. The STIP balance is forecast to continue at $25 million from FY 2008 through FY 2009.

The average TFBP balance includes the loan made to the school trust under SB 495 (2001 Session) because the interest paid on the loan is the current TFBP rate. As this loan is paid down, it is reinvested in TFBP shares, so the average TFBP balance does not change. The average TFBP balance decreased $33 million in FY 2006, primarily due to the $20 million transfer to the big sky economic development fund and transfers among investment types through the year. The average TFBP balance is projected to increase slightly in FY 2007 as the money currently invested in STIP is transferred into loans and the TFBP.

Permanent Fund Rate of Return and Income

Table 3 shows actual income and interest rates for each investment type in FY 2001 through FY 2006 and forecast income and interest rates from FY 2007 through FY 2009. Permanent fund investment income is projected by multiplying the fund balance by the projected interest rate for each type of investment. The loan rate forecast assumes that new loans made will have an average rate of 4.75%, since many of these loans are expected to be economic development loans that include rate reductions. This reduces the projected yield on loans in FY 2007 through FY 2009 to 5.10%. The forecasts of annual interest rates for STIP and TFBP are explained in the *Interest Rate Introduction.*

Table 3
Coal Trust Permanent Fund
Investment Income and Interest Rates
($ millions)

Fiscal Year	Loan Income	Interest Rate	STIP Income	Interest Rate	TFBP Income	Interest Rate
A 2001	$7.192	5.55%	$0.884	6.38%	$29.609	7.38%
A 2002	$9.375	6.47%	$0.861	2.99%	$26.794	7.31%
A 2003	$10.879	5.92%	$0.264	1.43%	$24.419	7.16%
A 2004	$9.222	5.72%	$0.362	1.12%	$25.724	7.34%
A 2005	$10.735	6.34%	$0.497	2.38%	$24.469	6.83%
A 2006	$9.056	5.13%	$1.784	4.26%	$18.991	5.83%
F 2007	**$9.104**	**5.10%**	**$1.430**	**5.34%**	**$19.977**	**6.11%**
F 2008	**$9.212**	**5.10%**	**$1.185**	**4.74%**	**$19.274**	**5.90%**
F 2009	**$9.212**	**5.10%**	**$1.180**	**4.72%**	**$18.541**	**5.68%**

Loan income decreased $1.7 million in FY 2006 because of unusually large loan paybacks in FY 2005. Loan income is projected to increase to $9.104 million in FY 2007 and remain at that level through FY 2009 based on the projected increase in loan investment.

STIP income increased about $1.3 million in FY 2006 because of the large balance and increased interest rate. STIP income is projected to decrease $0.4 million in FY 2007 due to the forecast decrease in the STIP balance. STIP income is projected continue decreasing through FY 2009 as the projected STIP fund balance decreases in FY 2007 and the interest rate falls in FY 2008 and FY 2009.

TFBP income decreased $5.5 million in FY 2006 because of the reduced balance and a lower interest rate. TFBP income is projected to increase to $19.977 million FY 2007 due to the interest rate increase. TFBP income is then projected to decrease in FY 2008 and FY 2009 due to decreasing TFBP investment balance and lower TFBP interest rates.

Occasionally permanent fund TFBP shares are sold. An example of this is the shares sold to finance the big sky economic development fund transfer in FY 2005. About 186,000 shares were sold for a capital gain of $0.990 million. The capital gain occurred because the TFBP share price at the time of sale was about $5 more than the average price paid for TFBP shares in the permanent fund. Capital gains in FY 2006 are $0.342 million. Currently, no other sales are forecast, so capital gains in FY 2007 through FY 2009 are forecast to be zero.

Table 4 summarizes total investment income to the coal tax permanent fund.

Table 4
Coal Trust Permanent Fund Income
($ millions)

Fiscal Year	Loan Income		STIP Income		TFBP Income		Capital Gains		Total Income	Percent Change
A 2001	$7.192	+	$0.884	+	$29.609	+	$0.151	=	$37.836	
A 2002	$9.375	+	$0.861	+	$26.794	+	$0.654	=	$37.685	(0%)
A 2003	$10.879	+	$0.264	+	$24.419	+	$0.994	=	$36.557	(3%)
A 2004	$9.222	+	$0.362	+	$25.724	+	$0.000	=	$35.309	(3%)
A 2005	$10.735	+	$0.497	+	$24.469	+	$0.857	=	$36.558	4%
A 2006	$9.056	+	$1.784	+	$18.991	+	$1.332	=	$31.163	(15%)
F 2007	**$9.104**	**+**	**$1.430**	**+**	**$19.977**	**+**	**$0.000**	**=**	**$30.511**	**(2%)**
F 2008	**$9.212**	**+**	**$1.185**	**+**	**$19.274**	**+**	**$0.000**	**=**	**$29.671**	**(3%)**
F 2009	**$9.212**	**+**	**$1.180**	**+**	**$18.541**	**+**	**$0.000**	**=**	**$28.933**	**(2%)**

The decrease in FY 2006 total income to $31.163 million was caused by transferring $20 million to the big sky economic development fund, a decrease in the TFBP interest rate, unusually large loan paybacks in FY 2005, and increased capital gains in FY 2005. The decrease in total income in FY 2007 to $30.511 million is due to the decrease in capital gains income. Income is expected to continue falling in FY 2008 to $29.671 million and in FY 2009 to $28.933 million due to decreases in STIP and TFBP interest earnings.

Coal Tax Bond Fund Income

The bond fund exists as a reserve fund to provide debt security for bonds called coal severance tax (tax) bonds. A balance, equal to principal and interest payments due on the tax bonds in the next year, is maintained in the Bond Fund. The bond fund guarantees that payments will be made, which allows the state to obtain a lower interest rate when it sells tax bonds. The bond fund is invested entirely in STIP.

The FY 2006 average bond fund STIP investment was $6.019 million. Based on projected reserve requirements for coal severance tax bonds, forecast reserve fund

average investment balances are $4.537 million in FY 2007, $4.162 million in FY 2008, and $4.750 million in FY 2009.

Table 5 shows the actual and projected average bond fund STIP investment, the STIP interest rate and interest income for FY 2001 through FY 2009. In FY 2006 the STIP rate increased, so the bond fund interest earnings also increased to $0.255 million. The STIP rate is projected to continue increasing, but the bond fund investment is projected to fall in FY 2007 to $4.537 million. The investment balance is forecast is to remain near that level, so annual income from FY 2007 though FY 2009 is expected to be lower than in FY 2006. Annual income is projected to be $0.238 million in FY 2007, $0.197 million in FY 2008, and $0.224 million in FY 2009.

Table 5
Bond Fund STIP Income

FY	Average Investment (millions)		Average Interest Rate		Annual Income (millions)
A 2001	$6.483	X	6.74%	=	$0.437
A 2002	$5.732	X	3.11%	=	$0.178
A 2003	$6.134	X	1.54%	=	$0.094
A 2004	$6.018	X	1.10%	=	$0.066
A 2005	$6.336	X	2.25%	=	$0.143
A 2006	$6.019	X	4.23%	=	$0.255
F 2007	**$4.537**	**X**	**5.25%**	**=**	**$0.238**
F 2008	**$4.162**	**X**	**4.74%**	**=**	**$0.197**
F 2009	**$4.750**	**X**	**4.72%**	**=**	**$0.224**

Other Income and Administrative Expenses

Another source of coal trust income is reinvested income. The interest earnings from the permanent fund and the bond fund are deposited into the coal tax income fund. Although the income fund balance is swept monthly into the general fund, it is invested in STIP during the interim. The income from this investment is returned to the income fund before being deposited into the general fund. Income from reinvesting the income fund balance is forecast to be $0.072 million annually from FY 2007 through FY 2009.

Administrative expenses for the permanent fund, bond fund, and income fund are deducted from the income fund. These expenses are projected to remain at the FY 2006 level of $0.390 million in FY 2007 through FY 2009.

Summary of Permanent Fund and Bond Fund Interest

Table 6 shows combined income from the permanent fund and the bond fund[1]. Income is projected to decrease through FY 2009 due to interest rates declines and no projected capital gains.

[1] The combined income in FY 2001 does not match general fund deposits in Table 1 due to timing of payments. Also, investment earnings in Table 1 do not include the deduction of FY 2005 administrative costs of $0 466 million.

Table 6
Coal Trust General Fund Investment Income

Fiscal Year	Permanent Fund Income		Bond Fund Income		Reinvested Income Fund Earnings		Admin Expense		Combined Income	Percent Change
A 2001	$37.836	+	$0.437	+	$0.119	+	($0.166)	=	$38.226	
A 2002	$37.685	+	$0.178	+	$0.059	+	($0.318)	=	$37.605	(2%)
A 2003	$36.557	+	$0.094	+	$0.030	+	($0.383)	=	$36.298	(3%)
A 2004	$35.309	+	$0.066	+	$0.023	+	($0.491)	=	$34.907	(4%)
A 2005	$36.558	+	$0.143	+	$0.051	+	($0.466)	=	$36.286	4%
A 2006	$31.163	+	$0.255	+	$0.079	+	($0.390)	=	$31.106	(14%)
F 2007	**$30.511**	+	**$0.238**	+	**$0.072**	+	**($0.390)**	=	**$30.431**	**(2%)**
F 2008	**$29.671**	+	**$0.197**	+	**$0.072**	+	**($0.390)**	=	**$29.550**	**(3%)**
F 2009	**$28.933**	+	**$0.224**	+	**$0.072**	+	**($0.390)**	=	**$28.839**	**(2%)**

HJR 2 Variables

Table 7 shows general fund revenue from the coal tax permanent fund and coal tax bond fund. The combined fund balance decreases in FY 2007 due to lower coal severance tax loan reserve requirements. The combined fund rate of return decreases each year from FY 2007 through FY 2009. General fund revenue is projected to be $30.431 million in FY 2007, $29.550 million in FY 2008, and $28.839 million in FY 2009.

Table 7
Coal Trust General Fund Revenue

Fiscal Year	Combined Fund Balance (millions)		Combined Fund Rate of Return		Combined Fund Income (millions)
A 2001	$551.091	X	6.94%	=	$38.226
A 2002	$546.105	X	6.89%	=	$37.605
A 2003	$549.158	X	6.61%	=	$36.298
A 2004	$550.218	X	6.34%	=	$34.907
A 2005	$555.131	X	6.54%	=	$36.286
A 2006	$538.142	X	5.78%	=	$31.106
F 2007	**$536.793**	**X**	**5.67%**	**=**	**$30.431**
F 2008	**$536.423**	X	**5.51%**	=	**$29.550**
F 2009	**$537.012**	X	**5.37%**	=	**$28.839**

Data Sources

Trust fund balances and earnings were obtained from the Board of Investments and SABHRS. Coal tax bond fund reserve requirements were obtained from DNRC.

TREASURY CASH ACCOUNT INCOME

Revenue Description

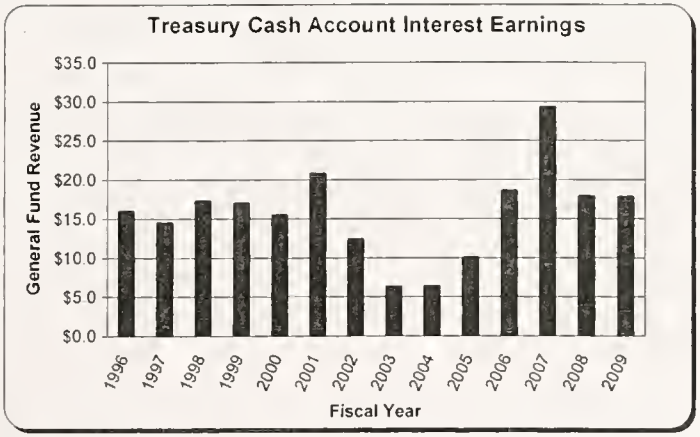
The treasury cash account (TCA) contains general fund cash balances and cash balances from several other funds whose interest earnings are deposited into the general fund. The Board of Investments invests TCA balances and the interest earned is paid into the general fund (17-6-202, MCA). In some years, the state borrows money to maintain a positive balance in the general fund by issuing tax or revenue anticipation notes (TRANS). TRANS are short-term bonds that are repaid in the same fiscal year that they are issued (17-1-201, MCA). Issuing TRANS increases the average balance in the TCA and, therefore, increases the interest earned on the account. However, the state pays interest on the TRANS.

Historical and Projected Revenue

Table 1 shows actual treasury account interest earnings for FY 1996 through FY 2006 and forecast earnings for FY 2007 through FY 2009.

Table 1
Treasury Cash Account Interest Earnings
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	$15.997	(3.55%)
A 1997	$14.500	(9.36%)
A 1998	$17.277	19.15%
A 1999	$17.041	(1.36%)
A 2000	$15.518	(8.94%)
A 2001	$20.772	33.86%
A 2002	$12.414	(40.23%)
A 2003	$6.366	(48.72%)
A 2004	$6.393	0.42%
A 2005	$10.047	57.15%
A 2006	$18.631	85.45%
F 2007	**$29.292**	**57.22%**
F 2008	**$17.914**	**(38.85%)**
F 2009	**$17.857**	**(0.31%)**



In FY 2003 and FY 2004, short-term interest rates were very low and TCA interest earnings decreased to less than $6.4 million per year. Interest earnings increased to $10.047 million in FY 2005 and $18.631 million in FY 2006 due to increased balances and higher short-term interest rates. TCA interest earnings are forecast to increase to $29.292 million in FY 2007 due to a larger average invested balance. Interest earnings

are forecast to decrease to $17.941 million in FY 2008 and to $17.857 million in FY 2009 as the average invested balance decreases.

Forecast Methodology and Projection Calculation

There are three steps to forecast TCA interest earnings. The first step is to project the average annual account balance. The second step is to project the average annual rate of return. The third step is to multiply the average annual balance by the average annual rate of return.

Treasury Cash Account Annual Balance

The balance in the TCA changes over the course of a fiscal year. There are two reasons for this. One is that revenues and expenditures are not equal in most months. General fund expenditures tend to be greater than revenues early in the fiscal year, and less than revenues later in the fiscal year. This causes the TCA balance to fall during the first part of the fiscal year and recover in the last part of the fiscal year. However, not all receipts and expenditures follow regular annual patterns, and the pattern of monthly TCA balances varies from year to year.

The other reason for changes in the balance during a fiscal year is that in some years the state issues TRANS. These are short-term bonds that the state issues and repays during the same fiscal year. They are issued to ensure that the general fund cash balance is positive. When TRANS are issued, the TCA balance increases by the amount of the TRANS issued. The balance decreases by the same amount when they are repaid at the end of the fiscal year.

Table 2 shows average TCA balance since FY 2001. The long-run average fund balance in the TCA through FY 2004 was about $300 million. In FY 2005 the average balance increased to $391 million and in FY 2006 the average balance increased to $514 million. The large increases were primarily caused by large increases in the general fund balance.

Table 2
Treasury Cash Account
Average Balances
($ millions)

Fiscal Year	Average Balance	Change in Fund Balance
A 2001	$334.705	
A 2002	$229.520	($105.186)
A 2003	$260.417	$30.898
A 2004	$299.890	$39.472
A 2005	$390.731	$90.841
A 2006	$514.096	$123.365

Table 3 shows the average TCA balance, the general fund year end balance, and the difference between the balances. The average TCA balance was projected for FY 2007 through FY 2009 using the executive budget recommendations for cash disbursements and ending general fund balance. The general fund ending balance is expected to be $530 million in FY 2007, $270 million in FY 2008, and $269 million in FY 2009.

Table 3
General Fund Balance
and Average TCA Balance
($ millions)

Fiscal Year	Average TCA Balance	Year End General Fund Balance	Difference
A 2004	$299.890	$132.873	$167.017
A 2005	$390.731	$289.675	$101.056
A 2006	$514.096	$406.000	$108.096
F 2007	**$634.576**	**$530.000**	$104 576
F 2008	**$374.576**	**$270.000**	$104 576
F 2009	**$373.576**	**$269.000**	$104.576

The TCA average fund balance is projected by calculating the difference between the general fund balance and the TCA balance for FY 2005 through FY 2006. The average difference of $105 million is then added to the executive budget recommendations for FY 2007 through FY 2009. The average TCA balance is projected to be $634 million in FY 2007, $270 million in FY 2008, and $269 million in FY 2009.

TCA balances are invested in overnight repurchase agreements, the short term investment pool (STIP), and long term bonds. Table 4 shows actual and projected invested balances by investment type from FY 2001 through FY 2009.

Table 4
Treasury Cash Account
Average Balance by Investment Type
($ millions)

Fiscal Year	Cash Balance	% Total	STIP Balance	% Total	Long Term Bond Balance	% Total	Average Balance
A 2001	$18.589	6%	$221.950	66%	$94.166	28%	$334.705
A 2002	$18.510	8%	$175.762	77%	$35.248	15%	$229.520
A 2003	$116.372	45%	$88.357	34%	$55.688	21%	$260.417
A 2004	$68.904	23%	$105.868	35%	$125.118	42%	$299.890
A 2005	$20.116	5%	$164.966	42%	$205.649	53%	$390.731
A 2006	$20.178	4%	$246.311	48%	$247.607	48%	$514.096
F 2007	**$20.178**	**3%**	**$312.939**	**49%**	**$301.459**	**48%**	**$634.576**
F 2008	**$20.178**	**5%**	**$176.453**	**47%**	**$177.944**	**48%**	**$374.576**
F 2009	**$20.178**	**5%**	**$175.928**	**47%**	**$177.469**	**48%**	**$373.576**

The cash balances that are invested in overnight repurchase agreements are forecast to average $20.178 million in FY 2007 through FY 2009. This forecast is the average cash balance in FY 2006. Average cash balances are expected to remain steady because cash does not generally fluctuate with the average fund balance.

The STIP balance is forecast to be average fund balance minus long-term bond balance minus cash balance. This is because any balance remaining after the fund balance is invested in long-term bonds and adequate cash reserves are maintained and invested in STIP. The portion of the TCA balance invested in STIP is projected to be 49% of income in FY 2007, 47% of income in FY 2008 and FY 2009.

The long-term bond balance is forecast to be 48% of the average fund balance, which is the average percentage of fund balance invested in long-term bonds from FY 2004 through FY 2006.

Treasury Cash Account Rate of Return

The interest rate on cash invested in overnight repurchase agreements is generally the federal funds target rate. Global Insight forecasts the federal funds rate which is used as the cash investment interest rate. The interest rate is projected to increase in FY 2007 to 5.17% and then decrease to around 4.5% in FY 2008 and FY 2009.

The forecast of annual interest rates for STIP is explained in the *Interest Rate Introduction*. The STIP rate is projected to increase in FY 2007 to 5.19% and decrease to about 4.9% in FY 2008 and FY 2009.

Long-term bond interest rate is forecast to be 4.00% in FY 2007, and 4.75% in FY 2008 and FY 2009. The forecast of bond interest rates were based on the average bond coupon rate and discussions with the Board of Investments. The lower yield in FY 2007 is due to expected capital losses from selling securities.

Treasury Cash Account Interest Earnings

Table 5 shows treasury cash account investment income and interest rates for each investment type from FY 2001 through FY 2009. The interest income for each investment type is projected by multiplying the average balance by the rate of return for FY 2007 through FY 2009. Total TCA investment income is determined by adding the income from the three investment types together.

Table 5
Treasury Cash Account
Income and Interest Rate by Investment Type
($ millions)

Fiscal Year	Cash Investment Income	Interest Rate	STIP Income	Interest Rate	Long Term Bond Income	Interest Rate	Total Income	Total Rate of Return
A 2001	$0.959	5.16%	$13.430	6.05%	$6.410	6.81%	$20.800	6.21%
A 2002	$0.377	2.04%	$5.766	3.28%	$6.298	17.87%	$12.441	5.42%
A 2003	$1.802	1.55%	$1.490	1.69%	$3.132	5.62%	$6.424	2.47%
A 2004	$1.046	1.52%	$0.993	0.94%	$4.408	3.52%	$6.447	2.15%
A 2005	$0.496	2.46%	$3.809	2.31%	$5.794	2.82%	$10.098	2.58%
A 2006	$0.881	4.37%	$10.518	4.27%	$7.293	2.95%	$18.692	3.64%
F 2007	**$1.043**	**5.17%**	**$16.251**	**5.19%**	**$12.058**	**4.00%**	**$29.353**	**4.63%**
F 2008	**$0.915**	**4.54%**	**$8.606**	**4.88%**	**$8.452**	**4.75%**	**$17.974**	**4.80%**
F 2009	**$0.921**	**4.56%**	**$8.567**	**4.87%**	**$8.430**	**4.75%**	**$17.918**	**4.80%**

Total TCA income decreased substantially from FY 2001 to FY 2004 due to interest rate declines and a decline in the average balance invested. Interest rate increases and average balance increases in FY 2005 and FY 2006 caused income to grow to $10 million and $18 million, respectively. The STIP rate and the cash investment interest rates are projected to increase in FY 2007 and fall slightly in FY 2008. The long-term bond rate is also projected to increase, resulting in substantial increases in investment income. In FY 2009 total investment income is projected to decrease due to the decreased average balance.

Net interest earnings equal total income less administrative costs. Administrative costs are projected to continue at the FY 2006 level of $0.061 million in FY 2007 through FY 2009. Table 6 shows total investment income, administrative costs, and net interest earnings from FY 2001 through FY 2009.

Table 6
Treasury Cash Account
Interest Earnings
($ millions)

Fiscal Year	Total Investment Income		Admin Costs		Net Interest Earnings	Percent Change
A 2001	$20.800	+	($0.028)	=	$20.772	
A 2002	$12.441	+	($0.026)	=	$12.414	(40%)
A 2003	$6.424	+	($0.057)	=	$6.366	(49%)
A 2004	$6.447	+	($0.054)	=	$6.393	0%
A 2005	$10.098	+	($0.052)	=	$10.047	57%
F 2006	$18.692	+	($0.061)	=	$18.631	85%
F 2007	**$29.353**	**+**	**($0.061)**	**=**	**$29.292**	**57%**
F 2008	**$17.974**	**+**	**($0.061)**	**=**	**$17.914**	**(39%)**
F 2009	**$17.918**	**+**	**($0.061)**	**=**	**$17.857**	**(0%)**

HJR 2 Variables

Table 7 shows the TCA average fund balance, rate of return, and interest earnings from FY 2001 through FY 2009. TCA interest earnings are forecast to be $29.292 million in FY 2007, 17.914 million in FY 2008, and $17.857 million in FY 2009.

Table 7
TCA Balance and Rate
($ millions)

Fiscal Year	Fund Balance		Fund Rate		Interest Earnings
A 2001	$334.705	X	6.21%	=	$20.772
A 2002	$229.520	X	5.41%	=	$12.414
A 2003	$260.417	X	2.44%	=	$6.366
A 2004	$299.890	X	2.13%	=	$6.393
A 2005	$390.731	X	2.57%	=	$10.047
A 2006	$514.096	X	3.62%	=	$18.631
F 2007	**$634.576**	**X**	**4.62%**	**=**	**$29.292**
F 2008	**$374.576**	**X**	**4.78%**	**=**	**$17.914**
F 2009	**$373.576**	**X**	**4.78%**	**=**	**$17.857**

Data Sources

TCA balances and earnings are from SABHRS and the Board of Investments. STIP rates are from the Board of Investments. The federal funds rate is obtained from the Federal Reserve website: http://www.federalreserve.gov/releases/h15/data.htm.

LIQUOR EXCISE AND LICENSE TAXES

Revenue Description

Sections 16-1-401 and 16-1-404, MCA, direct the Department of Revenue to collect an excise tax of 16% and a license tax of 10% of the retail selling price on all liquor sold and delivered in the state and manufactured by distillers producing 200,000 or more proof gallons of alcohol annually. Both the excise and license tax rates are smaller for distillers that produce less than 200,000 proof gallons of alcohol. However, all Montana liquor is supplied by distillers that produce at least 200,000 proof gallons of alcohol annually.

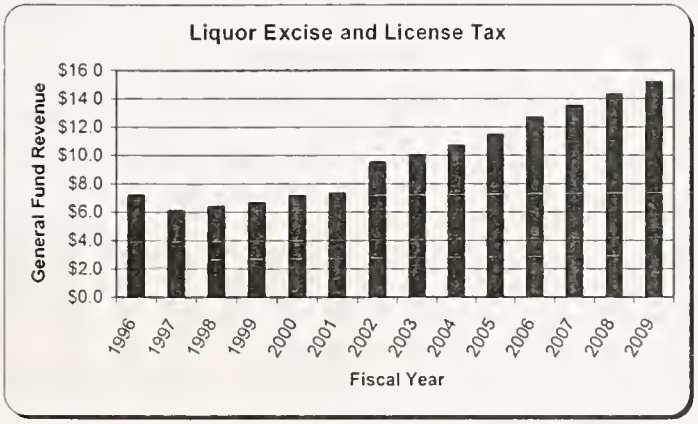
A small portion of liquor *excise* tax revenue is refunded to three Indian tribes that have revenue sharing agreements with the state. The remaining revenue, approximately 98% of the liquor *excise* tax, is deposited in the state general fund. The liquor *license* tax is deposited 34.5% in the state general fund and 65.5% to the Department of Public Health and Human Services to fund alcohol and chemical dependency programs.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from liquor excise and liquor license taxes for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Liquor Excise and License Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	7.203	16.17%
A 1997	6.107	-15.21%
A 1998	6.412	5.00%
A 1999	6.666	3.96%
A 2000	7.172	7.58%
A 2001	7.343	2.38%
A 2002	9.514	29.56%
A 2003	10.042	5.55%
A 2004	10.718	6.73%
A 2005	11.468	7.00%
A 2006	12.709	10.82%
F 2007	**13.484**	**6.09%**
F 2008	**14.307**	**6.11%**
F 2009	**15.181**	**6.11%**



Liquor excise and license tax general fund revenue spiked in FY 1996 due to sales from privatizing the state-owned liquor stores. When privatization occurred, the state sold

state-owned liquor merchandise in the state liquor stores to the new store owners, resulting in higher dollar and unit sales, but not increased consumption. FY 1997 shows a decline in sales due to sale of the liquor inventory to the private liquor store owners in FY 1996.

HB 124 (2001 Session) changed the distribution of the liquor license tax. Prior to FY 2002, 30% of the liquor license tax was distributed to local governments. Beginning in FY 2002, 65.5% of liquor license tax revenue goes to the Department of Health and Human Services and 34.5% of revenue goes to the state general fund. This change explains the 29.56% growth in state general fund revenue in FY 2002 from this source.

The forecast projects liquor excise and license tax general fund revenue to increase 6.09% in FY 2007, and 6.11% annually in FY 2008 and FY 2009.

Forecast Methodology and Projection Calculation

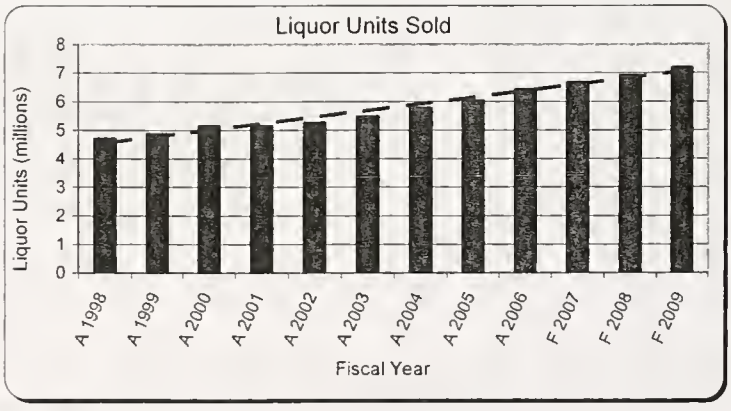
There are four steps for estimating general fund revenues from the liquor excise and license tax: calculate gross sales; calculate retail selling value; calculate gross liquor excise and license tax collections; and calculate liquor excise and license tax general fund revenue.

Calculate Gross Sales

The first step in estimating liquor excise and license tax receipts is to calculate gross sales. There are three components to this calculation: the number of liquor units sold; the cost per liquor unit; and the gross sales-to-cost ratio. Table 2 shows actual and projected liquor units sold from FY 1998 through FY 2009.

Table 2
Actual and Projected Liquor Units Sold
FY 1998 through FY 2009

Fiscal Year	Number of Units	% Chg.
A 1998	4,714,471	2.78%
A 1999	4,878,759	3.48%
A 2000	5,162,128	5.81%
A 2001	5,143,384	-0.36%
A 2002	5,279,610	2.65%
A 2003	5,490,769	4.00%
A 2004	5,781,289	5.29%
A 2005	6,027,734	4.26%
A 2006	6,429,236	6.66%
Avg. Growth		**3.84%**
F 2007	**6,676,213**	**3.84%**
F 2008	**6,932,678**	**3.84%**
F 2009	**7,198,995**	**3.84%**



The number of liquor units sold in FY 2007 through FY 2009 is projected to increase 3.84% annually, which is the average of annual growth rates from FY 1998 through FY 2006. As can be seen from the graph in Table 2, use of the average growth rate produces projected units sold that are very consistent with the trend over time.

The cost per liquor unit sold is the cost of goods sold divided by the number of liquor units sold. The actual cost per liquor unit and the annual percent change for FY 1998 through FY 2006 is shown in Table 3. The cost per liquor unit sold for FY 2007 through FY 2009 is projected to increase 2.18% per year, which is the annual growth rate from FY 1998 through FY 2006. In line with Table 2, FY 1998 through FY 2006 are used to establish this average.

Table 3
Actual and Projected Cost per Liquor Unit
FY 1998 through FY 2009

Fiscal Year	Cost of Goods Sold	/	Number of Units	=	Cost per Unit	Annual % Change
1998	$29,121,673	/	4,714,471	=	6.177	1.84%
1999	$30,201,100	/	4,878,759	=	6.190	0.21%
2000	$32,318,269	/	5,162,128	=	6.261	1.14%
2001	$33,666,541	/	5,143,384	=	6.546	4.55%
2002	$35,279,453	/	5,279,610	=	6.682	2.09%
2003	$37,321,005	/	5,490,769	=	6.797	1.72%
2004	$39,933,421	/	5,781,289	=	6.907	1.62%
2005	$42,693,308	/	6,027,734	=	7.083	2.54%
2006	$47,324,246	/	6,429,236	=	7.361	3.92%
	Average Growth FY 1998 - FY 2006					**2.18%**
2007	**$50,214,099**	**/**	**6,676,213**	**=**	**7.521**	**2.18%**
2008	**$53,280,421**	**/**	**6,932,678**	**=**	**7.685**	**2.18%**
2009	**$56,533,988**	**/**	**7,198,995**	**=**	**7.853**	**2.18%**

The sales-to-cost ratio is gross sales divided by the cost of goods sold. Table 4 shows this ratio and the annual percent change for FY 1998 through FY 2009. Historically, there is little year-to-year variation in this ratio. Since FY 2002, the ratio has only changed 0.002. The sales-to-cost ratio for FY 2007 through FY 2009 is projected to be 1.773.

Table 4
Historical and Projected Sales to Cost Ratio
FY 1995 through FY 2009

Fiscal Year	Gross Sales	/	Cost of Goods Sold	=	Sales to Cost Ratio	% Chg.
A 1998	$51,381,137	/	$29,121,673	=	1.764	0.05%
A 1999	$53,679,508	/	$30,201,100	=	1.777	0.74%
A 2000	$57,467,696	/	$32,318,269	=	1.778	0.04%
A 2001	$58,844,284	/	$33,666,541	=	1.748	-1.71%
A 2002	$62,514,926	/	$35,279,453	=	1.772	1.38%
A 2003	$66,123,983	/	$37,321,005	=	1.772	-0.01%
A 2004	$70,827,539	/	$39,933,421	=	1.774	0.11%
A 2005	$75,686,686	/	$42,693,308	=	1.773	-0.05%
A 2006	$83,916,480	/	$47,324,246	=	1.773	0.02%
F 2007	**$89,040,837**	**/**	**$50,214,099**	**=**	**1.773**	**0.00%**
F 2008	**$94,478,112**	**/**	**$53,280,421**	**=**	**1.773**	**0.00%**
F 2009	**$100,247,414**	**/**	**$56,533,988**	**=**	**1.773**	**0.00%**

As shown in Table 5, gross sales for FY 2007 through FY 2009 are calculated as the product of the projected number of liquor units sold, the estimated cost per unit, and the projected sales-to-cost ratio. Total liquor sales are estimated at $89.0 million in FY 2007, $94.5 million in FY 2008, and $100.2 million in FY 2009.

Table 5
Estimated Gross Liquor Sales
FY 2007 through FY 2009

Fiscal Year	Number of Liquor Units		Cost per Unit		Sales/Cost Ratio		Estimated Gross Sales
2007	6,676,213	x	$7.521	x	1.773	=	**$89,040,837**
2008	6,932,678	x	$7.685	x	1.773	=	**$94,478,112**
2009	7,198,995	x	$7.853	x	1.773	=	**$100,247,414**

Calculate Retail Selling Value

The liquor store owner pays both liquor excise (16%) and liquor license (10%) taxes. As shown in Table 6, to estimate the pre-tax retail value of liquor sales, gross liquor sales are divided by the combined liquor excise and liquor license tax rate of 26%. Estimated liquor retail value is $70.7 million in FY 2007, $75.0 million in FY 2008, and $79.6 million in FY 2009.

Table 6
Calculation of Liquor Sales Retail Value
FY 2007 through FY 2009

Fiscal Year	Estimated Gross Sales	/	1 + (Combined Tax Rate*)	=	Estimated Retail Value
2007	89,040,837	/	1.26	=	**$70,667,331**
2008	94,478,112	/	1.26	=	**$74,982,628**
2009	100,247,414	/	1.26	=	**$79,561,439**

*Combined Liquor Excise and Liquor License Taxes

Calculate Gross Liquor Excise and License Tax Collections

Liquor excise tax receipts for FY 2007 through FY 2009 are estimated by multiplying the retail value of liquor sales by the liquor excise tax rate as shown in Table 7. Liquor excise tax revenue is $11.3 million in FY 2007, $12.0 million in FY 2008, and $12.7 million in FY 2009.

Table 7
Calculation of Gross Liquor Excise Tax
FY 2007 through FY 2009

Fiscal Year	Estimated Retail Value	x	Liquor Excise Tax Rate	=	**Estimated Gross Liquor Excise Tax**
2007	$70,667,331	x	16%	=	**$11,306,773**
2008	$74,982,628	x	16%	=	**$11,997,221**
2009	$79,561,439	x	16%	=	**$12,729,830**

Liquor license tax receipts for FY 2007 through FY 2009 are estimated by multiplying the retail value of liquor sales by the liquor license tax rate as shown in Table 8. Liquor license tax revenue is $7.1 million in FY 2007, $7.5 million in FY 2008, and $8.0 million in FY 2009.

Table 8
Calculation of Gross Liquor License Tax
FY 2007 through FY 2009

Fiscal Year	Estimated Retail Value	x	Liquor License Tax Rate	=	**Estimated Gross Liquor License Tax**
2007	$70,667,331	x	10%	=	**$7,066,733**
2008	$74,982,628	x	10%	=	**$7,498,263**
2009	$79,561,439	x	10%	=	**$7,956,144**

Calculate Liquor Excise and License Tax General Fund Revenue

The liquor excise tax receipts that are transferred to the general fund are calculated by subtracting the estimated amount of tribal refunds from the gross liquor excise tax projection. As shown in Table 9, payments to the tribal governments averaged 2.31% of the general fund alcohol collections for FY 2004 through FY 2006. Tribal refunds are estimated to remain 2.31% of the liquor excise tax general fund allocation for FY 2007 through FY 2009.

Table 9
Tribal Payments from Liquor Excise Tax
FY 2004 - FY 2006

Fiscal Year	Tribal Payment	/	Liquor Excise Tax	=	Tribal Percent of Liquor Excise Tax
2004	$216,395	/	$8,995,460	=	2.41%
2005	$216,693	/	$9,613,276	=	2.25%
2006	$242,086	/	$10,654,439	=	2.27%
Average Percent to Tribes					**2.31%**

As shown in Table 10, liquor excise and license tax general fund revenue is estimated to be $13.5 million for FY 2007, $14.3 million for FY 2008, and $15.2 million for FY 2009.

Table 10
Calculation of Liquor Excise Tax and Liquor License Tax General Fund Revenue
FY 2007 through FY 2009

Fiscal Year	Estimated Gross Liquor Excise Tax	-	Estimated Tribal Refunds	=	Estimated Liquor Excise Tax General Fund Revenue
2007	$11,306,773	-	$261,257	=	**$11,045,516**
2008	$11,997,221	-	$277,210	=	**$11,720,010**
2009	$12,729,830	-	$294,138	=	**$12,435,692**

Fiscal Year	Estimated Gross Liquor License Tax	x	General Fund Share	=	Estimated Liquor License Tax General Fund Revenue
2007	$7,066,733	x	34.5%	=	**$2,438,023**
2008	$7,498,263	x	34.5%	=	**$2,586,901**
2009	$7,956,144	x	34.5%	=	**$2,744,870**

Fiscal Year	Total General Fund Revenue
2007	**$13,483,539**
2008	**$14,306,911**
2009	**$15,180,562**

Data Sources

Data is from the Department of Revenue monthly cost of sales report, the Department of Revenue Liquor Distribution annual financial schedules, and SABHRS Report MTGL109.

LIQUOR PROFITS

Revenue Description

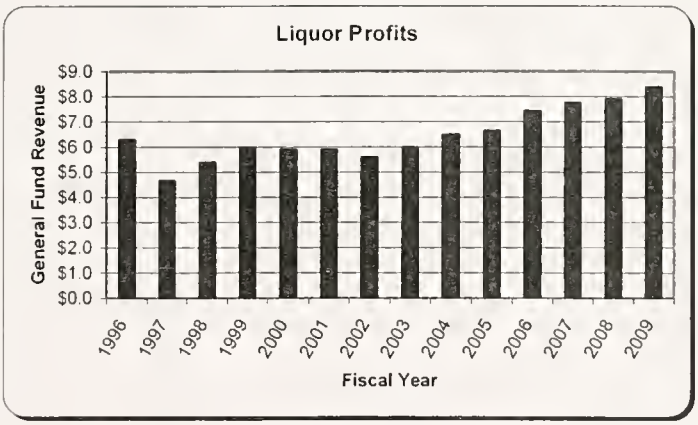
The Department of Revenue administers liquor laws relating to alcoholic beverage control, sale, and distribution, and the licensing of alcoholic beverage manufacturers, wholesalers, and retailers (Title 16, Chapters 1 through 6, MCA). Agency franchisees purchase liquor products from the state liquor warehouse. A 40% markup on the state's base costs covers the operating costs of the state liquor system and provides a net profit. All liquor profit revenue is transferred to the general fund at fiscal year end.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from liquor profits for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Liquor Profits Historical and Forecast Transfers to General Fund
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	6.300	78.12%
A 1997	4.675	-25.79%
A 1998	5.400	15.51%
A 1999	6.000	11.11%
A 2000	5.900	-1.67%
A 2001	5.900	0.00%
A 2002	5.600	-5.08%
A 2003	6.000	7.14%
A 2004	6.500	8.33%
A 2005	6.650	2.31%
A 2006	7.450	12.03%
F 2007	**7.765**	**4.23%**
F 2008	**7.908**	**1.85%**
F 2009	**8.391**	**6.11%**



Liquor profit transfers to the general fund have fluctuated over the years, spiking in FY 1996, the year in which the state privatized liquor-retailing operations. Liquor profit transfers to the general fund are forecast to increase 4.23% in FY 2007, 1.85% in FY 2008, and 6.11% in FY 2009. The increase of less than 2% in FY 2008 is due to the renegotiation of liquor store owner's commission rates in 2008. Increasing the commission rates will reduce the state liquor profits revenue.

Forecast Methodology and Projection Calculation

The liquor profit transfer to the general fund is based on the net income from liquor operations for the fiscal year. Net income from liquor operations is calculated as gross liquor sales less the cost of goods sold, liquor taxes (liquor excise tax and liquor license tax), commissions, discounts, and liquor operating expenses. The calculations for gross liquor sales, cost of goods sold, and liquor taxes are in the Liquor Excise and License Tax General Fund Revenue Estimate. This analysis will show the calculation of commissions, discounts, operating expenses, and profits.

Sales Commissions, Discounts, and Operating Expenses

Table 2 shows commission, discount, and operating expenses as a percentage of gross liquor sales for FY 2000 through FY 2006.

Sales commissions are paid to liquor store owners by the State of Montana. The commission rate was negotiated with liquor store owners when privatization occurred, and varies among store owners. In compliance with the law, the commission rates are negotiated between the Department of Revenue and the store owners every three years. SB 348 (2001 Session) increased the commission rates over a three-year period based on the annual sales volume by agency liquor stores. The last SB 348 rate increase went into effect in FY 2005, as did the new negotiated commission rates. The commission rate negotiated in FY 2005 averaged 9.16%, which is expected to continue in FY 2007. In FY 2008, the commission rate is expected to increase to 9.51% for FY 2008 and FY 2009. The increase of 0.37% is the average increase in commission rates.

Discounts are offered to liquor store owners on purchases of unbroken case lots as provided for in 16-2-201, MCA. Also, HB 348 (2001 Session) provided for certain additional discounts, mainly related to volume. These discounts went into effect in FY 2003. Prior to HB 348 the store-owner discount rate averaged 1.97% of gross liquor sales. After HB 348 the ratio of discounts increased to where it was 2.97% in FY 2005 and 2.94% in FY 2006. The discount rate is assumed to be equal to the average of FY 2005 through FY 2006, or 2.95%.

Since FY 2000, operating expenses (excluding permit application

Table 2
Commission, Discount, and Operating Rates
FY 2000 - FY 2009

Fiscal Year	Commission Rate	Discount Rate	Operating Expenses
A 2000	8.48%	1.97%	2.02%
A 2001	8.46%	1.97%	2.21%
A 2002	8.90%	1.97%	2.35%
A 2003	8.89%	2.35%	2.23%
A 2004	8.88%	2.65%	2.11%
A 2005	9.13%	2.97%	2.05%
A 2006	9.16%	2.94%	1.97%
Average Growth Rate =			2.14%
F 2007	9.16%	2.95%	2.14%
F 2008	9.51%	2.95%	2.14%
F 2009	9.51%	2.95%	2.14%

expenses) have averaged 2.14% of gross liquor sales. This rate is expected to remain constant through FY 2009.

Table 3 shows the calculation for commissions, discounts, and operating expenses.

Table 3
Projected Commissions and Discounts and Operating Expenses
FY 2007 through FY 2009

Description	FY 2007	FY 2008	FY 2009
Gross Sales	$89,040,837	$94,478,112	$ 100,247,414
Mulliplied by: Commission Rate (% of Gross Sales)	9.16%	9.51%	9.51%
Projected Commissions	**$ 8,156,141**	**$ 8,984,868**	**$ 9,533,529**
Gross Sales	$89,040,837	$94,478,112	$ 100,247,414
Multiplied by: Discount Rate (% of Gross Sales)	2.95%	2.95%	2.95%
Projected Discounts	**$ 2,630,270**	**$ 2,790,888**	**$ 2,961,313**
Gross Sales	$89,040,837	$94,478,112	$ 100,247,414
Mulliplied by: Operating Expenses (% of Gross Sales)	2.14%	2.14%	2.14%
Projected Operating Expenses	**$ 1,901,985**	**$ 2,018,130**	**$ 2,141,367**

Liquor Profit Transfers to the General Fund

Table 4 shows liquor profit calculations for FY 2007 through FY 2009. Liquor profit transfers to the general fund are forecast to be $7.7 million in FY 2007, $7.9 million in FY 2008, and $8.4 million in FY 2009. The small increase in FY 2008 is due to the expected increase in the liquor store operator's commission rates, which will reduce liquor profit revenue.

Table 4
Liquor Profits Calculation Summary
FY 2007 through FY 2009

Description	FY 2007	FY 2008	FY 2009
Gross Liquor Sales	$89,040,837	$94,478,112	$100,247,414
Less:			
Cost of Goods Sold	50,214,099	53,280,421	56,533,988
Liquor Taxes	18,373,506	19,495,483	20,685,974
Commissions	8,156,141	8,984,868	9,533,529
Discounts	2,630,270	2,790,888	2,961,313
Operating Expenses	1,901,985	2,018,130	2,141,367
Profit Transfers	**$7,764,836**	**$7,908,322**	**$8,391,243**

Data Sources

Gross liquor sales data for FY 2007 through FY 2009 comes from the Liquor Excise and License Tax write-up. Other data is from SABHRS Report MTGL0109 and the

BEER TAX

Revenue Description

Section 16-1-406, MCA, directs the Department of Revenue to collect a tax on each barrel (31 gallons) of beer sold in Montana by a wholesaler at the following rate:

Barrels Produced by a Brewer	Tax Rate Per Barrel
Less than or equal to 5,000	$1.30
5,001 to 10,000	$2.30
10,001 to 20,000	$3.30
Greater than 20,000	$4.30

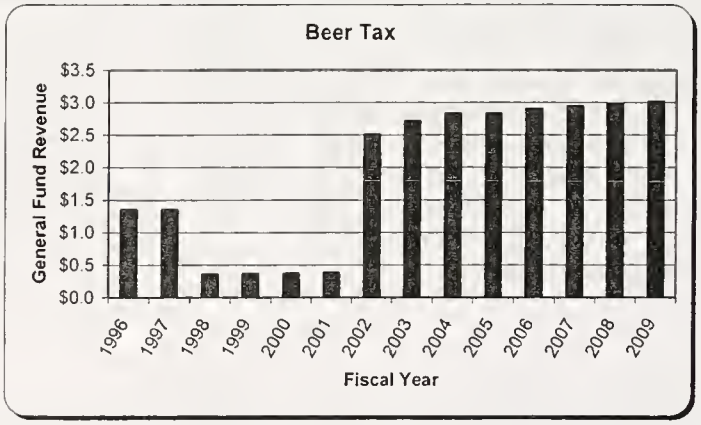
From total beer tax revenue, 76.74% is distributed to the state general fund and 23.26% is distributed to the Department of Public Health and Human Services to fund alcohol treatment programs. Approximately 2% of the 76.74% beer tax revenue allocated to the general fund is remitted to the Blackfeet, Fort Peck, and Fort Belknap Reservations in compliance with revenue sharing agreements with the tribes.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from the beer tax for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Beer Tax General Fund Revenue
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	$1.356	-
A 1997	$1.357	0.05%
A 1998	$0.358	-73.59%
A 1999	$0.374	4.38%
A 2000	$0.370	-0.95%
A 2001	$0.385	3.84%
A 2002	$2.511	552.88%
A 2003	$2.718	8.25%
A 2004	$2.837	4.37%
A 2005	$2.840	0.09%
A 2006	$2.908	2.39%
F 2007	**$2.946**	**1.33%**
F 2008	**$2.985**	**1.32%**
F 2009	**$3.024**	**1.31%**



HB 166 (1997 special session), decreased the general fund share of beer tax revenue from 41.86% to 11.63%, which caused a large drop in general fund revenue for FY 1998 to FY 2001. However, the significant increase in general fund beer tax revenue in FY 2002 is due to HB 124 (2001 session), which raised the general fund share of beer tax revenue from 11.63% to 76.74%.

Forecast Methodology and Projection Calculation

The forecast is made in three steps. First, the per capita consumption of beer is calculated. Second, total revenue is projected by multiplying per capita consumption by the total Montana population. Third, total revenue is allocated to the appropriate fund.

Estimate Per Capita Beer Consumption

To forecast Montana per capita beer consumption, a linear regression was modeled with the assumption that Montana per capita beer consumption would increase at the FY 1994 to FY 2006 average of 0.83% annually. The R^2 value, the number indicating the accuracy of a correlation, for this regression is 0.8946. Because the R^2 value is close to 1, the regression can be considered to accurately represent Montana per capita beer consumption. Although Montana law sets the legal drinking age at 21, total Montana population was used for this forecast instead of Montana population 20 and over, as in the wine tax revenue forecast, because of the accuracy of the forecasts. When the linear regression is run using Montana population 20 and over, the R^2 value is 0.5875, which indicates a much weaker trend because it is significantly less than 1. Graph 1 shows the regression of Montana per capita beer consumption.

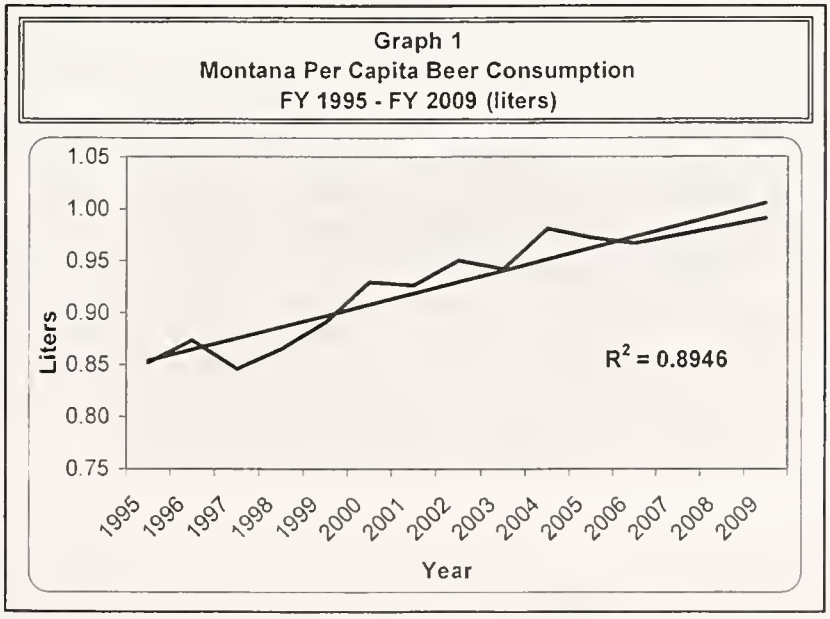


Table 2 shows the calculation of the per capita consumption of beer in Montana from FY 1994 through FY 2006 and the projected per capita consumption for FY 2007 through 2009.

Montana per capita beer consumption is total beer tax divided by the average tax rate[1] and the Montana population. Between FY 1994 and FY 2006, Montana per capita beer consumption increased an average of 0.83% annually. This growth rate is expected to continue through FY 2009.

Table 2
Actual and Forecasted Per Capita Consumption

Fiscal Year	Total Beer Tax Collections	/	Average Beer Tax Rate	/	Total Population	=	Per Capita Consumption Barrels	% Chg.
A 1994	$3,263,346	/	$4.30	/	863,109	=	0.879	-
A 1995	$3,215,598	/	$4.30	/	877,407	=	0.852	-3.07%
A 1996	$3,329,868	/	$4.30	/	886,321	=	0.874	2.51%
A 1997	$3,238,663	/	$4.30	/	890,120	=	0.846	-3.15%
A 1998	$3,324,479	/	$4.30	/	893,221	=	0.866	2.29%
A 1999	$3,443,466	/	$4.30	/	898,361	=	0.891	2.99%
A 2000	$3,613,076	/	$4.30	/	903,666	=	0.930	4.31%
A 2001	$3,614,271	/	$4.30	/	906,741	=	0.927	-0.31%
A 2002	$3,673,818	/	$4.24	/	911,527	=	0.951	2.54%
A 2003	$3,680,560	/	$4.25	/	919,105	=	0.942	-0.88%
A 2004	$3,852,302	/	$4.23	/	927,989	=	0.981	4.15%
F 2005	$3,853,435	/	$4.23	/	936,579	=	0.973	-0.89%
F 2006	$3,866,022	/	$4.24	/	943,111	=	0.967	-0.60%
Average Growth FY 1994 - FY 2004								**0.83%**
F 2007	**$3,917,778**	/	**$4.24**	/	**947,913**	=	**0.975**	**0.83%**
F 2008	**$3,969,497**	/	**$4.24**	/	**952,565**	=	**0.983**	**0.83%**
F 2009	**$4,021,600**	/	**$4.24**	/	**957,168**	=	**0.991**	**0.83%**

Forecast Total Beer Tax Revenue

Table 3 shows the forecast calculation of beer tax revenue through FY 2009. The per capita consumption forecast is multiplied by population estimates and the average tax rate per barrel to get total beer tax revenue. Total beer tax revenue is projected to increase 1.32% annually between FY 2007 and FY 2009.

Table 3
Forecast Beer Tax Revenue

Fiscal Year	Per Capita Consumption (Barrels)		Total Population		Average Tax		Total Revenue	% Change
A 2006	0.967	x	943,111	x	$4.24	=	$3,866,022	-
F 2007	0.975	x	947,913	x	$4.24	=	$3,917,778	1.34%
F 2008	0.983	x	952,565	x	$4.24	=	$3,969,497	1.32%
F 2009	0.991	x	957,168	x	$4.24	=	$4,021,600	1.31%

[1] The average tax rate is found by multiplying the tax rates by the number of barrels sold in each of the four categories and dividing by the total number of barrels of beer sold.

Allocation of Beer Tax Revenue

Table 4 shows the general fund allocation of wine tax revenues for FY 2007 through FY 2009. The general fund receives 76.74% of the total revenue less revenue sharing agreement payments to the tribes, which averaged 2% of the general fund wine tax allocation from FY 2000 through FY 2005. Tribal payments for FY 2007 through FY 2009 are estimated to remain constant at 2% of the general fund allocation.

Table 4
Beer Tax Allocation for FY 2007 through FY 2009

Fiscal Year	Total Collections		General Fund Allocation Percent		Dollars		Tribal Share		General Fund Revenue
F 2007	$3,917,778	x	76.74%	=	$3,006,503	-	$60,130	=	$2,946,372
F 2008	$3,969,497	x	76.74%	=	$3,046,192	-	$60,924	=	$2,985,267
F 2009	$4,021,600	x	76.74%	=	$3,086,176	-	$61,724	=	$3,024,451

Beer tax revenue allocated to the general fund is $2.946 million in FY 2007, $2.985 million in FY 2008, and $3.024million in 2009.

Data Sources

The beer tax revenue data is found in SABHRS Report MTGL0109. The Department of Revenue provided tribal data and beer tax collections by brewery size. Montana population estimates are from *Global Insight* Research Service, July 2006.

WINE TAX

Revenue Description

Section 16-1-411, MCA, directs the Department of Revenue to collect a tax of 27 cents on each liter of table wine and 3.7 cents on each liter of hard cider imported by a distributor or the department. Additionally, a tax of 1 cent per liter of wine is levied on table wine sold by a table wine dealer to an agent, pursuant to 16-2-301, MCA.

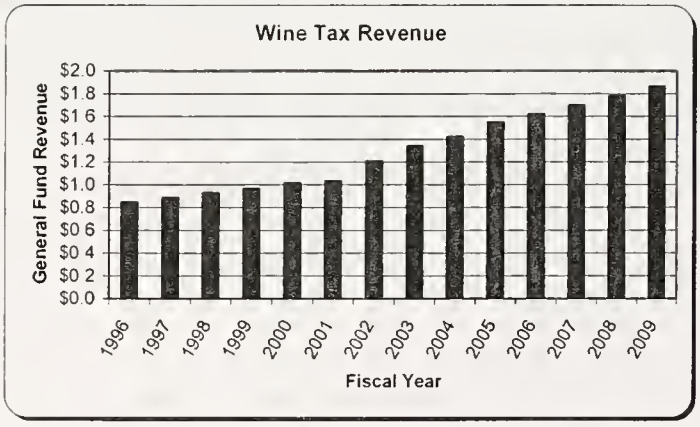
Wine tax revenues are distributed 69% to the state general fund and 31% to the Department of Public Health and Human Services. Approximately 2% of the wine tax revenue allocated to the general fund is remitted to the Blackfeet, Fort Peck, and Fort Belknap Reservations in compliance with revenue sharing agreements with the tribes.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from wine tax for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.[1]

Table 1
Wine Tax General Fund Revenue
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	$0.846	-
A 1997	$0.887	4.89%
A 1998	$0.930	4.86%
A 1999	$0.965	3.71%
A 2000	$1.017	5.34%
A 2001	$1.033	1.60%
A 2002	$1.210	17.20%
A 2003	$1.340	10.68%
A 2004	$1.423	6.21%
A 2005	$1.549	8.84%
A 2006	$1.624	4.85%
F 2007	**$1.699**	**4.65%**
F 2008	**$1.780**	**4.74%**
F 2009	**$1.863**	**4.67%**



FY 2002 wine tax revenue increased 17.2% due to HB 124 (2001 Session), which increased the general fund share of wine tax revenue from 59% to 69%. This forecast

[1] Revenues from the hard cider tax are insignificant (less than 0.10% of total collections) and thus are treated as wine tax revenues in this analysis.

projects general fund wine tax revenue to increase about 4.7% per year for FY 2007 through FY 2009, based on a 3.93% increase in per capita consumption and population growth.

Forecast Methodology and Projection Calculation

The general fund share of the wine tax is prepared in three steps:

1. Estimate liters of per capita wine consumption for FY 2007 through FY 2009 using per capita consumption from FY 1995 through FY 2006.
2. Multiply the estimates of per capita consumption by population and the tax rate ($0.27/liter) to obtain estimates of total revenue through FY 2009.
3. Determine the wine tax allocation to the general fund.

Estimate Per Capita Wine Consumption

Table 2 shows total wine tax revenue, the wine tax rate, Montana population age 20 and older, per capita wine consumption by liter, percent change in per capita consumption for FY 1990 through FY 2009, and the corresponding percent change in Montana population age 20 and over.

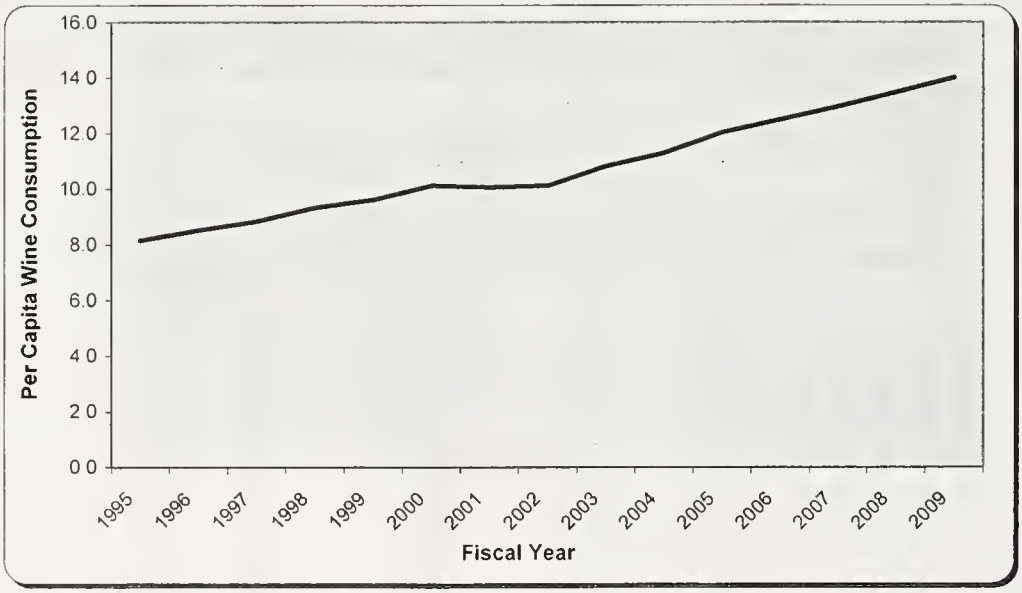
Table 2
Actual and Projected Per Capita Wine Consumption in Liters
Fiscal Years 1990 through 2009

	Fiscal Year	Total Revenue	÷	Tax	÷	Montana Population Age 20 and Over	=	Per Capita Consumption Liters	% Chg.
A	1990	$1,404,764	÷	$0.27	÷	556,051	=	9.36	-
A	1991	$1,346,598	÷	$0.27	÷	564,864	=	8.83	-5.64%
A	1992	$1,433,011	÷	$0.27	÷	577,920	=	9.18	4.01%
A	1993	$1,360,770	÷	$0.27	÷	592,546	=	8.51	-7.39%
A	1994	$1,289,016	÷	$0.27	÷	605,921	=	7.88	-7.36%
A	1995	$1,360,600	÷	$0.27	÷	617,844	=	8.16	3.52%
A	1996	$1,440,310	÷	$0.27	÷	626,025	=	8.52	4.47%
A	1997	$1,503,390	÷	$0.27	÷	630,621	=	8.83	3.62%
A	1998	$1,600,500	÷	$0.27	÷	634,738	=	9.34	5.77%
A	1999	$1,661,112	÷	$0.27	÷	640,322	=	9.61	2.88%
A	2000	$1,767,654	÷	$0.27	÷	647,450	=	10.11	5.24%
A	2001	$1,786,403	÷	$0.27	÷	657,293	=	10.07	-0.45%
A	2002	$1,815,798	÷	$0.27	÷	664,620	=	10.12	0.52%
A	2003	$1,976,257	÷	$0.27	÷	677,260	=	10.81	6.81%
A	2004	$2,104,165	÷	$0.27	÷	691,073	=	11.28	4.34%
A	2005	$2,284,989	÷	$0.27	÷	703,231	=	12.03	6.72%
A	2006	$2,397,695	÷	$0.27	÷	711,019	=	12.49	3.78%
	Average Growth FY 1995 - FY 2006							**10.11**	**3.94%**
F	**2007**	**$2,513,213**	÷	$0.27	÷	**717,056**	=	**12.98**	**3.94%**
F	**2008**	**$2,632,222**	÷	$0.27	÷	**722,575**	=	**13.49**	**3.94%**
F	**2009**	**$2,755,151**	÷	$0.27	÷	**727,684**	=	**14.02**	**3.94%**

Dividing total wine tax revenue by the tax rate of $0.27/liter and by the population over 20 gives a per capita wine consumption for Montana residents who are 20 or older. To forecast per capita wine consumption between FY 2007 and FY 2009, the increase in Montana per capita wine consumption over time was used. Montana population age 20 and over was used for this forecast because it fit the Montana per capital consumption growth over time better than total Montana population.

This forecast projects the per capita consumption of wine in Montana will grow at a rate of 3.94% between FY 2007 and FY 2009. This rate is the average annual growth rate from FY 1995 through FY 2006. As shown in Graph 1, there has been a strong upwards trend in per capita wine consumption in Montana since the mid-1990s. Graph 1 shows the actual Montana per capita consumption over time.

Graph 1
Montana Per Capita Wine Consumption Ages 20 and Over
FY 1995 - FY 2009 (liters)



Forecast Wine Tax Revenue

As shown in Table 3, wine tax revenue is forecast by multiplying the estimated Montana population age 20 or older by the Montana per capita wine consumption and by the wine tax rate of $0.27 per liter. Total wine tax revenue is forecast to grow about 4.7% per year and total $2,513,213 in FY 2007, $2,632,222 in FY 2008, and $2,755,151 in FY 2009.

Table 3
Forecast Wine Tax Revenue

Fiscal Year	Montana Population 20 and Over		Per Capita Consumption (Liters)		Tax		Total Revenue	% Change
F 2007	717,056	x	12.98	x	0.27	=	$2,513,213	4.82%
F 2008	722,575	x	13.49	x	0.27	=	$2,632,222	4.74%
F 2009	727,684	x	14.02	x	0.27	=	$2,755,151	4.67%

Allocation of Wine Tax Revenue

Table 4 shows the general fund allocation of wine tax revenues for FY 2007 through FY 2009. The general fund receives 69% of the total revenue, less revenue sharing agreement payments to the tribes, which averaged 2% of the general fund wine tax allocation from FY 2000 through FY 2005. Tribal payments for FY 2007 through FY 2009 are estimated to be 2% of the general fund allocation.

Table 4
Calculation of General Fund Wine Tax Allocation
FY 2007 through FY 2009

Fiscal Year	Total Collections		General Fund Allocation Percent		Dollars		Tribal Refunds		General
F 2007	$2,513,213	x	69%	=	$1,734,117	-	$34,682	=	$1,699,435
F 2008	$2,632,222	x	69%	=	$1,816,233	-	$36,325	=	$1,779,909
F 2009	$2,755,151	x	69%	=	$1,901,054	-	$38,021	=	$1,863,033

Wine tax revenue allocated to the general fund is $1.699 million in FY 2007, $1.780 million in FY 2008, and $1.863 million in 2009.

Data Sources

SABHRS Report MTGL0109 provided wine tax revenue. *Global Insight* Research Service provided Montana population data, July 2006.

CIGARETTE TAX

Revenue Description

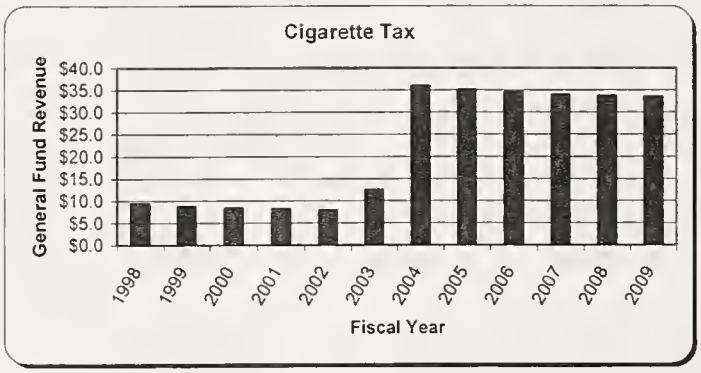
Section 16-11-111, MCA, specifies a tax of $1.70 on each pack of 20 cigarettes. If a pack contains more than twenty cigarettes, the tax is pro-rated by 1/20th of the 70-cent tax for each cigarette exceeding 20 cigarettes.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from the cigarette tax for FY 1998 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Cigarette Tax - General Fund
($ millions)

Fiscal Year	General Fund	Percent Change
A 1998	9.544	
A 1999	8.823	-7.56%
A 2000	8.418	-4.59%
A 2001	8.285	-1.58%
A 2002	7.887	-4.80%
A 2003	12.576	59.46%
A 2004	36.002	186.27%
A 2005	35.117	-2.46%
A 2006	34.573	-1.55%
F 2007	**33.950**	**-1.80%**
F 2008	**33.783**	**-0.49%**
F 2009	**33.606**	**-0.52%**



Prior to FY 1998, cigarette taxes were not allocated to the general fund. HB 166, (1997 Session) distributed cigarette tax revenue 73.04% to the general fund; 15.85% to the long-range building account; and 11.11% to the Department of Public Health and Human Services, as provided for in 16-11-119, MCA.

Beginning May 1, 2003, SB 407 (2003 Session) increased the tax on cigarettes from $0.18 to $0.70 per pack. SB 407 also changed the distribution of cigarette taxes, increasing the general fund portion to 87.40%, the long-range building account to 4.3%, and the Department of Public Health and Human Services to the greater of 8.3% or $2.0 million. The tax increase under SB 407 explains the overall increase in cigarette tax revenue in FY 2003 and FY 2004.

Initiative 149 (I-149) further increased the tax on each pack of cigarettes to $1.70 as of January 1, 2005. I-149 also changed the allocation of total collections as follows: 45.1% to the general fund; 44.0% to the health and Medicaid initiative account; 2.6% to the long-range building account; and the greater of 8.3% or $2 million for operation of state veterans' nursing homes.

The forecast projects general fund revenue to decrease 1.80% in FY 2007. This decrease can be attributed to a larger portion of total collections going towards tribal payments in FY 2007. The decreases in general fund revenue in FY 2008 and FY 2009 reflect a combination of a 1% decline in smoking and around 0.5% population growth.

Forecast Methodology and Projection Calculation

The primary steps in estimating cigarette tax revenue are as follows: 1) estimate taxable per capita cigarette consumption; 2) estimate cigarette tax revenue 3) calculate tribal revenue sharing agreement payments; and 4) calculate state cigarette tax revenue and allocation.

Step 1: Estimate Taxable Per Capita Cigarette Sales

Table 2 shows average monthly and annual per capita taxable cigarette package sales. Per capita cigarette package sales is total tax revenue divided by the per package tax rate, divided by Montana's population over 15 years of age. Overall, per capita sales have steadily declined since FY 1998. The declines in FY 2005 and FY 2006 are a notable result of I-149 tax increases.

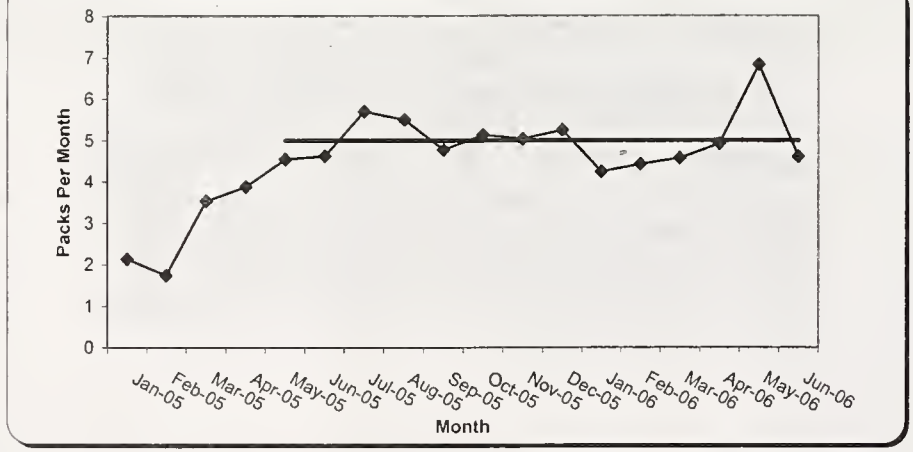
Table 2
Cigarette Sales Rate: Packs Per Capita Per Month
FY 1996 through FY 2006

Fiscal Year	Cigarette Tax Revenue (millions)		Tax Rate		Packs Per Year		MT population over 15		Months		Packs Per Capita Per Month	Percent Change
A 1996	$12.969	÷	$0.180	=	72,050,761	÷	693,450	÷	12	=	8.66	-1.37%
A 1997	$13.267	÷	$0.180	=	73,816,667	÷	699,017	÷	12	=	8.80	1.64%
A 1998	$13.245	÷	$0.180	=	73,583,333	÷	704,057	÷	12	=	8.71	-1.03%
A 1999	$12.265	÷	$0.180	=	68,140,817	÷	710,729	÷	12	=	7.99	-8.27%
A 2000	$11.766	÷	$0.180	=	65,368,172	÷	718,917	÷	12	=	7.58	-5.16%
A 2001	$11.628	÷	$0.180	=	64,602,547	÷	729,222	÷	12	=	7.38	-2.57%
A 2002	$11.052	÷	$0.180	=	61,400,968	÷	736,177	÷	12	=	6.95	-5.85%
A 2003	$16.093	÷	$0.325	=	49,500,779	÷	748,052	÷	12	=	5.51	-20.66%
A 2004	$41.365	÷	$0.700	=	60,271,774	÷	761,039	÷	12	=	6.60	19.68%
A 2005	$53.686	÷	$0.944	=	56,870,474	÷	772,051	÷	12	=	6.14	-6.99%
A 2006	$80.365	÷	$1.700	=	47,273,428	÷	778,106	÷	12	=	5.06	-17.52%

Tax increases affect the consumption level of cigarettes. Price elasticity represents a value that captures how much consumption will change when price changes. Prior tax increases in Montana have been estimated and observed to have price elasticities of demand of approximately -0.44. However, past tax increases in Montana were at a much smaller level, and, for the 2005 Session, it was anticipated that a very large increase, such as provided for in I-149, would involve a greater elasticity (between -0.7 and -0.8). This means relatively more smokers would reduce smoking or find alternative places to purchase cigarettes.

After a large tax increase, taxable cigarette sales are expected to decline abruptly and then level off to a new sales pattern where fewer consumers buy taxable cigarettes. In November and December 2004, cigarette consumers began stockpiling cigarettes to avoid paying the higher tax under I-149. In November 2004, an average of 12.7 packs per capita were purchased. In December 2004 this average was 9.7. As shown in Graph 1, in January and February 2005, consumers, while depleting their stockpiles, purchased an average of only 2.1 and 1.7 packs per capita. In March and April 2005, sales increased to 4.57 and 4.92 packs per capita respectively. In May 2005, a new sales trend began. Monthly cigarette pack sales from May 2005 to June 2006 averaged 5 packs per capita. This new rate of taxable cigarette sales is estimated based on the monthly data available since May of 2005, as the past baseline sales rates are skewed by the two recent tax increases in May 2003 and January 2005.

Graph 1
Monthly Cigarette Sales Per Capita
Post-January 2005



Graph 1 illustrates taxable cigarette sales leveling out during the time period of May 2005 to June 2006. This limited yet current data depicts a relatively flat sales trend.

However, national trends indicate that ultimately downward pressure on cigarette consumption will persist. As more people quit smoking, locate and purchase from nontaxable sources of cigarettes, or decide to use other taxable tobacco, the level of taxable cigarette consumption will further decline. Additionally, the new Montana law preventing smoking in most public places, 50-40-104, MCA, will further discourage people from smoking. Therefore, this estimate assumes a 1% decline in taxable cigarette sales per year for FY 2007 through FY 2009. This calculation is shown at the top of Table 3.

Step 2: Estimate Cigarette Tax Revenue

Table 3 shows the calculations used to project cigarette tax revenue. After the decline rate calculation, the average packs taxed per capita per month is multiplied by 12 to yield annual packs consumed per capita. Second, the total packs taxed per capita per year is multiplied by Montana's adult population to get total packs taxed each year. Total annual revenue is then calculated by multiplying the tax rate by the total packs sold per year.

Table 3
Gross Cigarette Tax Revenue Calculation

Description	FY2007	FY2008	FY2009
Base Packs Per Capita Per Month	5.00000	4.95000	4.90050
Multiply by Decline Rate	× -1%	× -1%	× -1%
Packs Per Capita Per Month	4.95000	4.90050	4.85150
Multiply by 12 Months	× 12	× 12	× 12
Taxable Packs Per Capita Per Year	59.4	58.8	58.2
Multiply by Adult Population	× 782,488	× 786,503	× 790,278
Total Taxable Packs Per Year	$46,479,787	$46,251,095	$46,008,357
Multiply by Tax Rate	× $1.70	× $1.70	× $1.70
Gross Cigarette Tax Revenue	**$79,015,638**	**$78,626,862**	**$78,214,207**

Step 3: Calculate Tribal Revenue Sharing Agreement Payments

There are three types of arrangements for cigarette taxes with the seven Indian reservations in Montana:

1) The Northern Cheyenne has a tax-free quota agreement with the state.
2) The Flathead Reservation abides by the tax-free quota law with no specific agreement with the state.
3) The Blackfeet, Fort Belknap, Rocky Boy, Fort Peck, and Crow Reservations have a revenue sharing agreement with the state.

Tribes in categories 1 and 2 receive cigarettes tax free for the enrolled tribal members residing on the reservation. Under the revenue sharing agreements, the tribal and state cigarette tax rates are the same. The tribe's share of the tax revenue is 150% of the per capita cigarette tax collected for each of the tribes' enrolled members residing on the reservation.

As additional tribes entered into revenue sharing agreements by mid-FY 2006, tribal revenue sharing agreement payments are forecast using the tribal payment percentage of total collections in the fourth quarter of FY 2006. This number is 4.73%. As shown in Table 4, revenue sharing agreement payments are estimated at $3.737 million in FY 2007, $3.719 million in FY 2008, and $3.700 million in FY 2009.

Table 4
Tribal Revenue Sharing Payments Calculation

Fiscal Year	Total Collections		Tribal Percent		Tribal Amount
FY 2006(Q4)	$21,605,290	×	4.73%	=	$1,021,930
FY 2007	**$79,015,638**	×	**4.73%**	=	**$3,737,440**
FY 2008	**$78,626,862**	×	**4.73%**	=	**$3,719,051**
FY 2009	**$78,214,207**	×	**4.73%**	=	**$3,699,532**

Step 4: Calculate State Cigarette Tax Revenue and Allocation

Table 5 shows the calculation and allocation of state cigarette tax revenue for FY 2007 through FY 2009. Tribal payments are subtracted from cigarette tax revenue to yield state cigarette tax revenue. Revenue is allocated to each fund by multiplying state cigarette tax revenue by the fund's share. The general fund will receive $33.950 million in FY2007, $33.783 million in FY 2008, and $33.606 million in FY 2009.

Table 5
Calculation of Cigarette Tax Revenue Allocation

Calculation	FY2007	FY2008	FY2009
Gross Cigarette Tax Revenue	$79,015,638	$78,626,862	$78,214,207
Subtract Tribal Payments	($3,737,440)	($3,719,051)	($3,699,532)
Total State Cigarette Tax Revenue	$75,278,199	$74,907,812	$74,514,675
Allocation			
General Fund (45.1%)	**$33,950,468**	**$33,783,423**	**$33,606,119**
Long Range Building Fund (2.6%)	$1,957,233	$1,947,603	$1,937,382
State Veterans' Nursing Homes (8.3%)	$6,248,090	$6,217,348	$6,184,718
Health and Medicaid (44.0%)	$33,122,407	$32,959,437	$32,786,457
Total State Cigarette Tax Revenue	$75,278,199	$74,907,812	$74,514,675

Data Sources

The general fund revenue data is in SABHRS report MTGL0109. Monthly insignias sold and current tribal payments are provided by DOR. Population data forecasts are provided by Global Insight (July 2006).

TOBACCO PRODUCTS TAX

Revenue Description

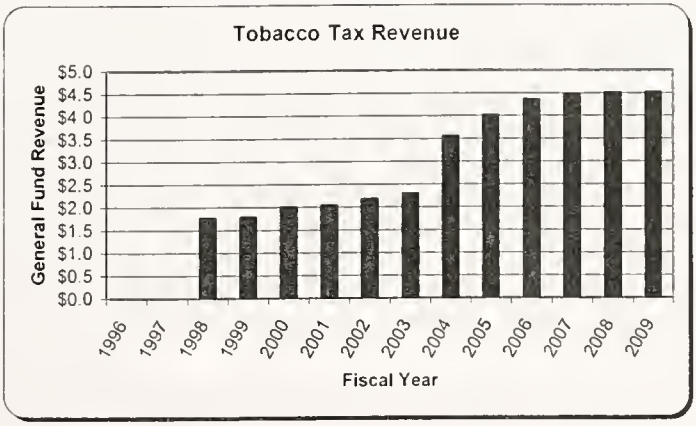
Section 16-11-111, MCA, directs the Department of Revenue (DOR) to collect a tax of 85 cents per ounce of moist snuff and 50% of the wholesale price of all other tobacco products. Tobacco products destined for retail sale and consumption outside Montana are not subject to this tax. The general fund and the health and Medicaid initiative account each receive 50% of the tobacco products tax revenue after payments are made as per tribal revenue sharing agreements.

Historical and Forecasted Revenue

Table 1 shows actual general fund revenue from the tobacco products tax for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Tobacco Tax Revenue
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	-	
A 1997	-	
A 1998	1.779	
A 1999	1.791	0.69%
A 2000	2.007	12.08%
A 2001	2.048	2.02%
A 2002	2.183	6.58%
A 2003	2.305	5.60%
A 2004	3.562	54.52%
A 2005	4.024	12.98%
A 2006	4.360	8.35%
F 2007	**4.483**	**2.81%**
F 2008	**4.506**	**0.52%**
F 2009	**4.527**	**0.48%**



Prior to FY 1998, tobacco taxes were not allocated to the general fund. Under the provisions of HB 166 (1997 Session) all tobacco tax revenue was distributed to the general fund.

On May 1, 2003, SB 407 (2003 Session) changed the tax on moist snuff from 12.5% of the wholesale price to 35 cents per ounce, an effective increase of 7 cents per ounce. SB 407 also increased the tax on all other tobacco from 12.5% of the wholesale price to

25% of the wholesale price. The tax increases under SB 407 explain the overall increase in tobacco tax revenue in FY 2004.

Further, on January 1, 2005, Initiative 149 (I-149) changed the tax on moist snuff to 85 cents per ounce and increased the tax on all other tobacco to 50% of the wholesale price. This tax increase explains the increase in total tobacco tax revenue in FY 2005 and FY 2006. Revenue is forecast to increase 2.81% in FY 2007 as a result of a larger proportion of refunds for unsalable tobacco product than usual being credited back to sellers in FY 2006. The forecast projects general fund revenue to grow at the rate of population growth as per capita consumption is held constant for FY 2008 and 2009.

Forecast Methodology and Projection Calculation

The tobacco tax revenue category is actually two taxes: (1) the moist snuff tax of 85 cents per ounce and (2) the other tobacco tax of 50 percent of the wholesale price.

The primary steps in estimating tobacco tax revenues are as follows: 1) estimate per capita tobacco consumption; 2) estimate projected gross tobacco tax revenue; 3) calculate wholesaler discounts; 4) calculate tribal revenue sharing agreement payments; 5) calculate refunds for unsalable product; and 6) calculate state tobacco tax revenue and allocation.

Step 1: Estimate Per Capita Tobacco Consumption

Tax increases affect the tobacco consumption level. The higher the relative tax increase, the greater the decrease in consumption. While proportionally significant, the tobacco tax increase under I-149 was not as extreme as the cigarette tax increase under that same initiative. Consequently the decrease in tobacco product consumption due to the I-149 tax change is expected to be less than the decrease in cigarette consumption. It is also likely that some cigarette smokers began using roll-your-own tobacco cigarettes or other tobacco products to save money. This will offset part of the prospective decrease in tobacco product consumption.

As shown in Table 2, moist snuff consumption has remained steady for the last two fiscal years. An average 10.3 ounces of moist snuff per capita was consumed in FY 2005. Likewise in FY 2006, 10.3 ounces of moist snuff per capita was

Table 2
Moist Snuff Consumption
FY 2005 and FY 2006

Fiscal Year	Total Revenue		MT Population Over 15		Tax Rate		Per Capita Consumption
A 2005	$4,601,976	÷	772,051	÷	$0.58	=	10.3
A 2006	$6,784,300	÷	778,106	÷	$0.85	=	10.3

consumed. This number is calculated by dividing the total moist snuff tax revenue by the population of Montana over fifteen, divided by the per ounce tax rate.

As shown in Table 3, other tobacco consumption has also remained relatively steady for the last two fiscal years. Per capita other tobacco consumption is calculated by dividing total other tobacco tax revenue by the population of Montana over 15, divided by the tax rate. Average per capita other tobacco consumption is $7.32 (wholesale price) for FY 2005 and FY 2006.

Table 3
Other Tobacco Consumption
FY 2005 and FY 2006

Fiscal Year	Total Revenue		MT Population Over 15		Tax Rate		Per Capita Wholesale Collections
A 2005	$1,695,216	÷	772,051	÷	30%	=	$7.32
A 2006	$2,848,435	÷	778,106	÷	50%	=	$7.32

Tobacco consumption has not changed significantly in the last two years. Therefore, projected tobacco consumption is not expected to change during the next three fiscal years. Projected moist snuff consumption is expected to remain stable at the FY 2005 and FY 2006 average of 10.3 ounces per capita. Projected consumption of other tobacco is also expected to remain at the FY 2005 and FY 2006 average of $7.32 per capita.

Step 2: Estimate Gross Tobacco Tax Revenue

Table 4 shows the calculation of total tobacco tax revenue for FY 2007 through FY 2009. This calculation is done for both moist snuff and other tobacco products. The calculation is as follows:

1. Estimated moist snuff per capita consumption is multiplied by Montana's population over 15 years of age to yield total moist snuff consumption.

2. Total moist snuff consumption is multiplied by the tax rate of 85 cents per ounce to yield gross moist snuff tax revenue.

3. Estimated other tobacco product per capita consumption is multiplied by Montana's population over 15 years of age to yield total other tobacco product consumption.

4. Total other tobacco product consumption is multiplied by the 50% of wholesale price tax rate to yield total other tobacco product gross tax revenue.

5. Gross other tobacco product tax revenue and gross moist snuff tax revenue are added together to yield gross tobacco tax revenue.

Table 4 Gross Tobacco Tax Revenue Calculation			
Description	**FY2007**	**FY2008**	**FY2009**
Moist Snuff			
Moist Snuff Per Capita Consumption (ounces)	10.3	10.3	10.3
Montana Population Over 15	× 782,488	× 786,503	× 790,278
Total Moist Snuff Consumption (ounces)	8,059,627	8,100,981	8,139,859
Moist Snuff Tax Rate	× $0.85	× $0.85	× $0.85
Gross Moist Snuff Tax Revenue	**$6,850,683**	**$6,885,834**	**$6,918,880**
Other Tobacco Product			
Other Tobacco Product Per Capita Consumption	$7.32	$7.32	$7.32
Multiply by Montana Population Over 15	× 782,488	× 786,503	× 790,278
Total Other Tobacco Product Consumption	$5,727,109	$5,757,202	$5,784,832
Multiply by Other Tobacco Product Tax Rate	× 50%	× 50%	× 50%
Gross Other Tobacco Product Tax Revenue	**$2,863,554**	**$2,878,601**	**$2,892,416**
Total Gross Tobacco Revenue	**$9,714,238**	**$9,764,435**	**$9,811,296**

Step 3: Calculate Wholesaler Discounts

The excise tax on tobacco products is imposed on retail consumers, but is collected by wholesalers. Wholesalers are allowed a discount equal to 1.5% of total tax collections to defray collection and administrative costs.

As shown in Table 5, wholesaler discounts for moist snuff and other tobacco products are estimated at $145,714 in FY 2007, $146,467 in FY 2008, and $147,169 in FY 2009.

Table 5 Wholesalers Discounts Calculation					
Fiscal Year	**Gross Tobacco Revenue**		**Wholesaler Discount Percentage**		**Wholesaler Discount Amount**
FY 2006	$9,632,735	×	1.50%		$144,491
FY 2007	**$9,714,238**	×	**1.50%**	=	**$145,714**
FY 2008	**$9,764,435**	×	**1.50%**	=	**$146,467**
FY 2009	**$9,811,296**	×	**1.50%**	=	**$147,169**

Step 4: Calculate Tribal Revenue Sharing Agreement Payments

Five Indian reservations in Montana have a tobacco revenue sharing agreement with the state: Blackfeet, Fort Belknap, Rocky Boy, Fort Peck and Crow Reservations.

Under the revenue sharing agreements, the tribal and state tobacco tax are the same. The tribe's share of the tax revenue is 150% of the per capita state tobacco tax collected for each of the tribes' enrolled members residing on the reservation.

As a result of additional tribes entering revenue sharing agreements by mid-FY 2006, tribal revenue sharing agreement payments are forecast using the tribal payment percentage of total collections in the fourth quarter of FY 2006. This number is 4.73%. As shown in Table 6, tribal revenue sharing agreement payments are estimated at $452,591 in FY 2007, $454,930 in FY 2008, and $457,113 in FY 2009.

Table 6
Tribal Revenue Sharing Payments Calculation

Fiscal Year	Total Collections (less discounts)		Tribal Payment Percentage		Tribal Payment Amount
FY 2006(Q4)	$2,358,076	×	4.73%	=	$111,537
FY 2007	**$9,568,524**	×	**4.73%**	=	**$452,591**
FY 2008	**$9,617,969**	×	**4.73%**	=	**$454,930**
FY 2009	**$9,664,126**	×	**4.73%**	=	**$457,113**

Step 5: Calculate Refunds for Unsalable Product

Each year a percentage of tobacco products cannot be sold due to faulty packaging or bad product. Tobacco product sellers can obtain a refund credit for tobacco products that could not be sold due to defect. The percentage of defective product credits of total collections in FY 2005 is used to forecast FY 2007 through FY 2008 refund credits. In FY 2006, more refund credits were claimed than usual due to an alteration made by the Department of Revenue in reporting procedure. This estimate forecasts an average of 1.55% of total collections will be credited back to sellers in FY 2007 through FY 2009. As Table 7 shows, this amount will be $150,571 in FY 2007, $151,349 in FY 2008, and $152,075 in FY 2008.

Table 7
Refund Credits Calculation

Fiscal Year	Total Collections		Credit Refund Percentage		Credit Refund Amount
FY 2005	$6,297,192	×	1.55%		$97,616
FY 2007	**$9,714,238**	×	1.55%	=	**$150,571**
FY 2008	**$9,764,435**	×	1.55%	=	**$151,349**
FY 2009	**$9,811,296**	×	1.55%	=	**$152,075**

Step 6: Calculate State Tobacco Tax Revenue and Allocation

Table 8 shows the calculation and allocation of state tobacco tax revenue for FY 2007 through FY 2009. Wholesaler discounts and tribal revenue sharing payments are subtracted from gross tobacco tax revenue to yield state cigarette tax revenue. Fifty percent of the revenue goes to the general fund and 50% goes to the health and Medicaid fund. Estimated general fund tobacco tax revenues total $4.483 million in FY 2007, $4.506 million in FY 2008, and $4.527 million in FY 2009, as shown in Table 8.

Table 8
Calculation of Tobacco Tax Revenue Allocation

Calculate Tobacco Tax Revenue	FY 2007	FY 2008	FY 2009
Total Tobacco Tax Revenue	$9,714,238	$9,764,435	$9,811,296
Subtract Wholesaler Discounts	($145,714)	($146,467)	($147,169)
Subtract Tribal Payments	($452,591)	($454,930)	($457,113)
Subtract Refund Credits	($150,571)	($151,349)	($152,075)
Total State Tobacco tax Revenue	$8,965,362	$9,011,690	$9,054,938
Allocate State Tobacco Tax Revenue			
Total to General Fund (50%)	**$4,482,681**	**$4,505,845**	**$4,527,469**
Total to Health and Medicaid (50%)	$4,482,681	$4,505,845	$4,527,469
Total State Tobacco tax Revenue	$8,965,362	$9,011,690	$9,054,938

Data Sources

The general fund revenue data is from SABHRS report MTGL0109. Monthly tobacco tax collections and current tribal payments are provided by DOR. Population data is provided by Global Insight, Inc (July 2006 Data).

TOBACCO SETTLEMENT REVENUE

Revenue Description

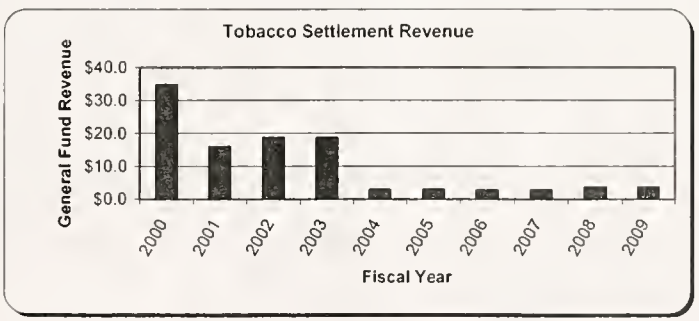
In 1998, Montana, along with 45 other states, signed a settlement agreement with major tobacco companies. Pursuant to the agreement Montana will receive approximately $832 million by the year 2025. Payments are made annually beginning in FY 2000. The schedule of payments provided for under the settlement agreement is subject to change depending on adjustment criteria specified in the agreement.

Historical and Projected Tobacco Settlement Funds

Table 1 shows actual general fund revenue from the tobacco settlement payments for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009. The terms of the original agreement provided that payments begin in FY 1998. Montana did not receive its first payment until FY 2000.

Table 1
Tobacco Settlement Revenue - General Fund
($ millions)

Fiscal Year	General Fund	Percent Change
A 2000	34.804	
A 2001	15.989	-54.06%
A 2002	18.647	16.63%
A 2003	18.700	0.28%
A 2004	2.939	-84.28%
A 2005	2.978	1.31%
A 2006	2.734	-8.20%
F 2007	**2.847**	**4.15%**
F 2008	**3.668**	**28.84%**
F 2009	**3.675**	**0.19%**



The forecast payments are decreasing mainly because cigarette consumption has decreased. Further additional negative adjustments to the annual payments have been made since FY 2005 to compensate for changes in market share among the participating and non-participating manufacturers. These market share adjustments are forecast to continue through FY 2009 (see section on Non-participating Manufacturers Adjustment).

Two major arrangements in the allocation of the tobacco settlement revenue have existed since the first payment was received in FY 2000. First, in November 2000, Montana's electorate passed Constitutional Amendment 35. The amendment required no less than 40% of tobacco settlement revenue to be deposited in a trust fund, with the remaining

money deposited in the state general fund. The trust fund was established to provide a permanent source of revenue to fund the costs associated with programs for tobacco disease prevention and healthcare benefits, services, or coverage. The amendment further stated that 90% of the interest and income from the trust fund could be appropriated; with 10% of the interest and income from the trust fund to be deposited in the trust fund on or after January 1, 2001. The principal of the trust fund and 10% of the interest and income was to be deposited in the trust fund and remain forever inviolate unless appropriated by a vote of two-thirds of the members of each house of the Legislature.

Second, in the November 2002 election, Initiative 146 (I-146) was passed. I-146 required the tobacco settlement payments received after June 30, 2003 be deposited as follows: 32% in a state special revenue account for tobacco prevention; 17% in a state special revenue account for health insurance benefits; 40% in the trust fund; and 11% in the state general fund. Table 2 shows the estimated tobacco payment distributions to each fund for FY 2007 through FY 2009.

Table 2
Estimated Tobacco Settlement Payment Distributions
FY 2007 Through FY 2009

Fiscal Year 2007

Payment	Fund	Distribution	Amount
	General Fund	11%	$2.847
Forecast $25.882	Tobacco Trust Fund	40%	10.353
	Tobacco Prevention Account	32%	8.282
	Health Insurance Benefits Acc.	17%	4.400
	Total	**100%**	**$25.882**

Fiscal Year 2008

Payment	Fund	Distribution	Amount
	General Fund	11%	$3.668
Forecast $33.348	Tobacco Trust Fund	40%	13.339
	Tobacco Prevention Account	32%	10.671
	Health Insurance Benefits Acc.	17%	5.669
	Total	**100%**	**$33.348**

Fiscal Year 2009

Payment	Fund	Distribution	Amount
	General Fund	11%	$3.675
Forecast $33.412	Tobacco Trust Fund	40%	13.365
	Tobacco Prevention Account	32%	10.692
	Health Insurance Benefits Acc.	17%	5.680
	Total	**100%**	**$33.412**

Forecast Methodology and Projection Calculation

The Master Settlement Agreement (MSA) provides for complex methods and formulas to calculate annual payments made by the settling tobacco companies to each state. Several clauses in the tobacco settlement set forth the precise calculations for the adjustments to the payments due from the two categories of settling companies: (1) Original Participating Manufacturers (OPM) and (2) Subsequent Participating Manufacturers (SPM).

Seven major calculations are used to calculate the annual amount due to Montana from tobacco companies which are parties to the MSA:

1) the inflation adjustment;
2) the volume adjustment to the base payment;
3) the volume adjustment to the base operating income;
4) previously settled states reduction;
5) SPM payments;
6) the Non-Participating Manufacturers (NPM) Adjustment; and
7) Montana's share of the total payment.

Inflation Adjustment

The inflation adjustment utilizes the larger of 3.00% or the current year CPI percent change, as set forth in the agreement. Annual inflation adjustments are cumulative, building from one year to the next. The inflation rate has varied from 3.00% to 3.42%. Table 3 shows the annual and compounded inflation rate since FY 2000. Global Insight, Inc. does not forecast CPI percent change to be over 3.00% for the next three years. Therefore, this estimate uses a rate of 3.00% to create the compounded inflation adjustment rate for FY 2007 through FY 2009.

Table 3
Compounded Inflation

Fiscal Year	Inflation Rate	Compounded Inflation
A 2000	3.00%	3.00%
A 2001	3.39%	6.49%
A 2002	3.00%	9.83%
A 2003	3.00%	12.97%
A 2004	3.00%	16.36%
A 2005	3.26%	20.15%
A 2006	3.42%	24.25%
F 2007	**3.00%**	**28.40%**
F 2008	**3.00%**	**32.25%**
F 2009	**3.00%**	**36.22%**

Volume Adjustments

Volume Adjustment Part 1 - In the event the aggregate number of cigarettes shipped to the fifty United States, the District of Columbia, and Puerto Rico by the Original Participating Manufacturers (OPM) in a year is greater or less than 475,656,000,000 cigarettes (the "base volume"), the base payment for that year is increased or decreased by the formulas set forth in the MSA. The aggregate number of cigarettes shipped has continually decreased and hence further increased the volume adjustment reduction (see Table 5).

Volume Adjustment Part 2 - In the event that aggregate operating income from sales of OPM cigarettes for the applicable year is greater than the "base operating income" adjusted for inflation, there is a volume adjustment increase to the applicable payment.

Since the inception of the settlement agreement this has not been the case. Therefore, this estimate projects that the operating income will be less than the base operating income adjusted for inflation in FY 2007 through FY 2009; hence, no volume adjustment part 2 is necessary.

Other Adjustments and Calculations

Three other adjustments are made to each annual payment. First, an adjustment is made to compensate for the reduction in the base payment due to other states having previously settled with the manufacturers outside of the MSA. A second adjustment is made to compensate for changes in NPM market share. Third, SPM payments must be calculated. Finally, Montana's share of the total adjusted payment must be calculated by multiplying the total payment by the stipulated amount of 0.4247591%.

Summary of Forecast Tobacco Settlement Payments

Table 4 shows a summary of the calculations made to determine Montana's estimated tobacco settlement payments for FY 2007 through FY 2009.

Table 4
Summary Calculation of Tobacco Settlement Revenue

Description	FY 2007	FY 2008	FY 2009
Base Payment	$8,000,000,000	$9,000,000,000	$9,000,000,000
Plus:			
Inflation Adjustment	$2,271,862,400	$2,902,520,700	$3,259,595,700
Net Volume Adjustment	($3,037,984,006)	($3,797,166,974)	($4,186,594,938)
Previously Settled States Reduction	($900,617,860)	($991,882,579)	($987,923,425)
Adjusted OPM Base Payment	**$6,333,260,534**	**$7,113,471,146**	**$7,085,077,337**
Adjusted SPM Base Payment	**$468,341,072**	**$576,809,024**	**$617,306,622**
Sub-total Adjusted Base Payment	$6,801,601,606	$7,690,280,170	$7,702,383,959
Less (NPM) Adjustment/Withholding (10.6%)	($720,969,770)	($815,169,698)	($816,452,700)
Total Adjusted Base Payment	**$6,080,631,836**	**$6,875,110,472**	**$6,885,931,259**
Strategic Con. Of Adj. Base Pay (9.5667%)		$657,718,902	$658,754,090
Remainder of Adj. Base Payment (90.4333%)		$6,217,391,570	$6,227,177,169
Total Adjusted Base Payment		**$6,875,110,472**	**$6,885,931,259**
Stategic Contribution Share	-	$657,718,902	$658,754,090
Multiplied by MT Share of Strategic Contribution	-	0.010447501	0.010447501
MT's Strategic Contribution Share	-	**$6,871,519**	**$6,882,334**
Base Payment w/out Strategic Cont. Share	$6,080,631,836	$6,217,391,570	$6,227,177,169
Multiplied by MT Share of Adj. Base Contribution	0.004247591	0.004247591	0.004247591
MT's non-Strategic Adj. Base Pay. Share	**$25,828,037**	**$26,408,936**	**$26,450,502**
MT Share of Adjusted Base Payment	$25,828,037	$33,280,455	$33,332,836
Plus Additional 'New' SPM Prior Obligation	$54,411	$67,234	$79,363
Total MT Payment	**$25,882,448**	**$33,347,689**	**$33,412,199**

The base payment amount is $8 billion in FY 2007 and $9 billion in FY 2008 and FY 2009, as per the MSA payment schedule. Beginning in 2008, the base payment amount is composed of two sections: a strategic contribution fund of $861 million and the scheduled base payment of $8.139 billion. The strategic contribution fund is adjusted in the same manner as the base payment, but is allocated differently among the states which are a party to the MSA. Montana receives 0.4247591% of the base payment and 1.0447501% of the strategic contribution fund. Subsequent sections of this estimate will include the details for each of the individual steps of the adjustment calculations shown in Table 4.

Tobacco Settlement Payment Calculations

The primary steps in estimating tobacco settlement payments are as follows: 1) calculate volume adjustments; 2) calculate previously settled states reduction; 3) calculate subsequent participating manufacturer payment; and 4) calculate non-participating manufacturer adjustment.

Step 1: Calculate Volume Adjustments

To determine the volume adjustment a comparison must be made between the MSA base volume and the actual current year volume of cigarettes sold. The base level of cigarette sales volume in the MSA is stipulated at 475,656,000,000 for OPMs. Historically, the actual volume of cigarettes sold has been much less than the base volume. OPM shipments have declined both due to a decrease in overall cigarette consumption and a loss in market share to other manufacturers.

Table 5 provides actual and forecast OPM cigarette shipments by calendar year (CY). From CY 2000 to CY 2005 the OPM cigarette shipments decrease was 3.40%. This annual percent change is used to estimate the OPM cigarette shipments for CY 2006 through CY 2008. Montana's fiscal year payments are based on the prior CY. Therefore, shipments used for the FY 2007 payment are forecast to be 320.814 billion, 309.907 billion in FY 2008, and 299.370 billion in FY 2009.

Table 5
Cigarette Shipments and Volume Reduction

Calender Year	Shipments (Billions)	Annual % Change	% Change from Base Year*
A 1998	475.656	-	-
A 1999	409.019	-14.01%	-
A 2000	402.662	-1.55%	-14.01%
A 2001	384.228	-4.58%	-15.56%
A 2002	365.247	-4.94%	-19.22%
A 2003	344.661	-5.64%	-23.21%
A 2004	339.113	-1.61%	-27.54%
A 2005	332.106	-2.07%	-28.71%
CY 2000 - 2005 Avg. % Change		**-3.40%**	
F 2006	**320.814**	**-3.40%**	**-30.18%**
F 2007	**309.907**	**-3.40%**	**-32.55%**
F 2008	**299.370**	**-3.40%**	**-34.85%**

*CY % change in volume from base year is applied to next FY

The MSA stipulates the volume adjustment be calculated as shown in Table 6:

1) base payment is adjusted for inflation;
2) base payment adjusted for inflation is the MSA factor of 98%; and
3) base payment adjusted for inflation and the MSA multiplier is multiplied by the forecast percent change from base year volume of -30.18% in FY 2007, -32.55% in FY 2008, and -34.85% in FY 2009.

Table 6
Calculation of Volume Adjustment Part 1

Adjustment	FY 2007	FY 2008	FY 2009
Base Payment	$8,000,000,000	$9,000,000,000	$9,000,000,000
Multiplied by Compounded Inflation	0.2839828	0.3225023	0.3621773
Inflation Adjustment	$2,271,862,328	$2,902,520,473	$3,259,596,087
Plus Base Payment	$8,000,000,000	$9,000,000,000	$9,000,000,000
Base Payment Adjusted for Inflation	$10,271,862,328	$11,902,520,473	$12,259,596,087
Multiplied by Multiplier	0.98	0.98	0.98
Base Payment Adj. for Inflation & Multiplier	$10,066,425,081	$11,664,470,063	$12,014,404,165
Multiplied by Volume Reduction	0.30179373	0.32553275	0.34846463
Volume Adjustment Part 1	**$3,037,984,006**	**$3,797,166,974**	**$4,186,594,938**

Step 2: Calculate Previously Settled States Reduction

To calculate the previously settled states reduction the base payment, adjusted for inflation and adjusted by Volume Adjustment Part 1, is multiplied by the previously settled states reduction multiplier of 12.45% for FY 2007 and 12.24% in FY 2008 and FY 2009, as specified in the MSA. This provides a previously settled states reduction amount of approximately $901 million in FY 2007, $992 million in FY 2008, and $988 million in FY 2009. Table 7 shows the previously settled states reduction calculation for FY 2007 through FY 2009.

Table 7
Calculation of Previously Settled States Reduction

Payment	FY 2007	FY 2008	FY 2009
Base Payment Adjusted for Inflation	$10,271,862,400	$11,902,520,700	$12,259,595,700
Volume Adjustment Part 1	($3,037,984,006)	($3,797,166,974)	($4,186,594,938)
Base Payment Adjusted for Inflation, & Volume	$7,233,878,394	$8,105,353,726	$8,073,000,762
Multiplied by Previously Settled States Reduction	0.1245	0.1224	0.1224
Previously Settled States Reduction	**$900,617,860**	**$991,882,579**	**$987,923,425**

Step 3: Calculate Subsequent Participating Manufacturer (SPM) Payment

The SPM payment is dependent upon deleting the excess market share from the OPM base payments adjusted for volume changes and inflation. As Table 8 shows, the excess market share ratio average annual change from FY 2000 to FY 2005 was 1.032%. Changes in excess market share for FY 2007, FY 2008, and FY 2009 are estimated to be 1.032%.

Table 8
Excess Market Share

Calender Year	Annual Change	EMS Ratio
A 2000		1.161%
A 2001	0.579%	1.740%
A 2002	0.656%	2.396%
A 2003	1.848%	4.244%
A 2004	0.185%	4.429%
A 2005	1.890%	6.319%
Avg. Ann. Chg.	1.032%	
F 2006	1.032%	7.351%
F 2007	1.032%	8.383%
F 2008	1.032%	9.415%

Table 9 shows the SPM base payment calculation for FY 2007 through FY 2009. The SPM payment amount is equal to the OPM base payment adjusted for "Volume Adjustment Part 1" multiplied by: 1) the ratio of SPM excess market share to the OPM excess market share and 2) the inflation rate. The SPM base payment adjusted for inflation is estimated to be $468 million in FY 2007, $577 million in FY 2008, and $617 million in FY 2009.

Table 9
Calculation of SPMs Payment

Payment	FY 2007	FY 2008	FY 2009
OPM Base Payment	$8,000,000,000	$9,000,000,000	$9,000,000,000
Plus Volume Adjustment Part 1	($3,037,984,006)	($3,797,166,974)	($4,186,594,938)
OPM Base Payment Adjusted for Volume	$4,962,015,994	$5,202,833,026	$4,813,405,062
Multiplied by Ratio of SPM EMS to OPM EMS	0.073509739	0.083829279	0.094148818
SPM Base Payment	$364,756,503	$436,149,740	$453,176,398
Multiplied by Inflation Adjustment	1.2839828	1.3225023	1.3621773
SPM Base Payment Adjusted for Inflation	**$468,341,072**	**$576,809,024**	**$617,306,622**

Step 4: Calculate Non-Participating Manufacturer (NPM) Adjustment

If OPMs and SPMs lose market share to NPMs, OPMs and SPMs may be entitled to pay less. The NPM adjustment is conditional upon two factors: (1) whether there has been a loss in market share by participating manufacturers to NPMs; and (2) whether that loss is attributable to disadvantages resultant from the tobacco settlement.

A specific provision of the MSA, referred to as the safe harbor provision, is relevant to this adjustment. Under the safe harbor provision, a state can avoid a payment reduction due to the NPM adjustment if a qualifying statute is enacted and "diligently enforced". The qualifying statute provides for an amount to be paid into an escrow account for each cigarette sold by NPMs in the state that is equivalent to the amount that would have been paid had the NPMs participated in the settlement.

Currently, all states including Montana have enacted qualifying statutes under the safe harbor provision. Because every state enacted these statutes, NPM adjustments were set

to zero in the past. However, with the increasing market loss to NPMs, the meaning of "diligent enforcement" is now in question. "Diligent enforcement" is not defined in the MSA. Consequently, there is uncertainty as to how, or who, will determine the meaning of "diligent enforcement". States contend the decision should be made in state court, tobacco companies would rather the decision be made in arbitration. "Diligent enforcement" likely includes some combination of legislation and enforcement actions.

An independent auditor determined that, beginning in 2003, participating manufacturers started losing market share to NPMs. A report released in March further determined the loss to be directly attributable to disadvantages spawned by the tobacco settlement. Pursuant to this finding, OPMs and SPMs can pay a portion of their tobacco settlement payments into a dispute account. Withheld disputed amounts are not to be distributed to the states until the dispute is resolved. In FY 2006, Phillip Morris paid states its full required payment even though it disputed those amounts.

There are numerous possible outcomes to the dispute over the NPM adjustment. The following is a short list of possible outcomes over this disputed money.

1. If it is found that the loss in market share for participating manufacturers was not due to disadvantages result from the tobacco settlement, then the monies withheld will likely be distributed to the states immediately.

2. If a settlement is reached between the states and the participating manufacturers, payments could be reduced by some amount, the safe harbor statute could be revised, or some combination of the two. The fiscal impacts of such a settlement are unknown because the terms of such a settlement are uncertain.

3. Litigation may extend beyond FY 2009. If this is the case, then OPMs and SPMs will continue to place the disputed money in the separate dispute account. In FY 2006, 10.6 percent of the annual adjusted payment was withheld.

4. It may be found that the loss in market share is due to disadvantages as a result of the tobacco settlement and that every state did not "diligently enforce" their safe harbor statutes. This finding would mean that states would have to face an undetermined reduction to the settlement fund they receive.

Many possible outcomes exist and it is unknown at this time which scenarios are more likely. However, for purposes of this estimate, it is assumed that the dispute over the NPM adjustment will not be resolved prior to the FY 2009 payment, and that for FY 2007 through 2009 the participating manufacturers will withhold NPM adjustment amounts proportional to what OPMs and SPMs withheld in FY 2006. Table 4 estimates future withholdings to be proportional to past withholdings. In FY 2006, 10.6% of the total payment was withheld in a dispute account. Using 10.6% as a basis for future withholdings, Table 4 shows that settling tobacco companies will withhold $721 million in FY 2007, $815 million in FY 2008, and $816 million in FY 2009.

Additional Subsequent Participating Manufacturers (SPM) Payment

The largest NPM, General Tobacco, signed the tobacco settlement agreement in August 2004 and became a SPM beginning in FY 2005. Along with making normal MSA payments, General Tobacco will also make payments on a separate ten-year schedule for prior obligations. The prior obligation payments are based on the amount they would have paid under the MSA, had General Tobacco participated since the agreement's inception in 1998. Shown near the bottom of Table 4, these additional payments are estimated at $54,411 in FY 2007, $67,234 in FY 2008, and $79,363 in FY 2009.

Risk Calculation

Current disputes regarding the tobacco settlement necessitate a risk calculation section. It is possible that Montana will receive less than this estimate forecasts.

Revenue Estimate Risk: FY 2007 through FY 2009

The amount Montana will receive in FY 2007 through FY 2009 may be significantly less than the preceding estimate forecasts due to the variability of NPM payment withholdings by OPMs and SPMs. The highest maximum potential NPM adjustment since the inception of the MSA was 18.7% in FY 2003. Table 10 shows how much tobacco settlement revenue will decrease if the maximum amount is withheld by all settling companies.

Table 10
Summary Calculation of Tobacco Settlement Revenue with 18.7% NPM Adj.

Description	FY 2007	FY 2008	FY 2009
Base Payment	$8,000,000,000	$9,000,000,000	$9,000,000,000
Plus:			
Inflation Adjustment	$2,271,862,400	$2,902,520,700	$3,259,595,700
Net Volume Adjustment	($3,037,984,006)	($3,797,166,974)	($4,186,594,938)
Previously Settled States Reduction	($900,617,860)	($991,882,579)	($987,923,425)
Adjusted OPM Base Payment	**$6,333,260,534**	**$7,113,471,146**	**$7,085,077,337**
Adjusted SPM Base Payment	**$468,341,072**	**$576,809,024**	**$617,306,622**
Sub-total Adjusted Base Payment	$6,801,601,606	$7,690,280,170	$7,702,383,959
Less (NPM) Adjustment/Withholding (18 7%)	($1,271,899,500)	($1,438,082,392)	($1,440,345,800)
Total Adjusted Base Payment	**$5,529,702,106**	**$6,252,197,778**	**$6,262,038,158**
Strategic Con. Of Adj. Base Pay (9 5667%)		$598,126,921	$599,068,317
Remainder of Adj Base Payment (90 4333%)		$5,654,070,857	$5,662,969,841
Total Adjusted Base Payment		**$6,252,197,778**	**$6,262,038,158**
Stategic Contribution Share	-	$598,126,921	$599,068,317
Multiplied by MT Share of Strategic Contribution	-	0 010447501	0 010447501
MT's Strategic Contribution Share	-	**$6,248,932**	**$6,258,767**
Base Payment w/out Strategic Cont. Share	$5,529,702,106	$5,654,070,857	$5,662,969,841
Multiplied by MT Share of Adj Base Contribution	0.004247591	0 004247591	0.004247591
MT's non-Strategic Adj. Base Pay. Share	**$23,487,913**	**$24,016,180**	**$24,053,980**
MT Share of Adjusted Base Payment	$23,487,913	$30,265,112	$30,312,747
Plus Additional 'New' SPM Prior Obligation	$54,411	$67,234	$79,363
Total MT Payment	**$23,542,324**	**$30,332,346**	**$30,392,110**

OPMs and SPMs are currently not all withholding the maximum amount possible, nor is the maximum potential withholding always 18.7% of adjusted base payment. Rather, in FY 2005 OPMs and SPMs placed approximately $100 million, or 1.5% of the adjusted base payment, into a dispute account. In FY 2006, approximately $700 million, or 10.6% of the adjusted base payment, was withheld. Notably, Phillip Morris, one of the largest OPMs, chose not to withhold, expecting to get a refund for the disputable portion after going through the dispute process. The OPMs and SPMs decision to withhold the disputed amount affects the proportion that may be withheld in the future. The OPMs and SPMs decision also makes predicting how much funding will be withheld from states difficult. Table 11 quantifies the risk taken when assuming that 10.6% of the adjusted base payment will be withheld instead of the maximum 18.7% that could have been withheld in FY 2003 as per the MSA. Table 11 indicates that the tobacco settlement payment may decrease from the original estimate by $2.340 million in FY 2007, $3.015 million in FY 2008, and $3.020 million in FY 2009 if the maximum amount is withheld.

Table 11
Estimated Tobacco Settlement Payment Distributions
Difference with Maximum NPM Adjustment

Fiscal Year 2007

Payment	Fund	Distribution	Amount
Forecast -$2.340	General Fund	11%	($0.257)
	Tobacco Trust Fund	40%	(0.936)
	Tobacco Prevention Account	32%	(0.749)
	Health Insurance Benefits Acc.	17%	(0.398)
	Total	**100%**	**($2.340)**

Fiscal Year 2008

Payment	Fund	Distribution	Amount
Forecast -$3.015	General Fund	11%	($0.332)
	Tobacco Trust Fund	40%	(1.206)
	Tobacco Prevention Account	32%	(0.965)
	Health Insurance Benefits Acc.	17%	(0.513)
	Total	**100%**	**($3.015)**

Fiscal Year 2009

Payment	Fund	Distribution	Amount
Forecast -$3.020	General Fund	11%	($0.332)
	Tobacco Trust Fund	40%	(1.208)
	Tobacco Prevention Account	32%	(0.966)
	Health Insurance Benefits Acc.	17%	(0.513)
	Total	**100%**	**($3.020)**

Back Payment Risk

It must also be noted that states party to the MSA may be required to pay back portions of past tobacco settlement payments that were either 1) initially not entirely withheld or 2) paid to the states but later disputed (eg. Phillip Morris). These amounts cannot be accurately forecast as all companies' disputed withholdings do not accurately reflect how much money is actually being disputed. Additionally, the final ruling or agreement on the NPM adjustment may vary significantly and greatly alter the back payment amounts.

RETAIL TELECOMMUNICATIONS EXCISE TAX

Revenue Description

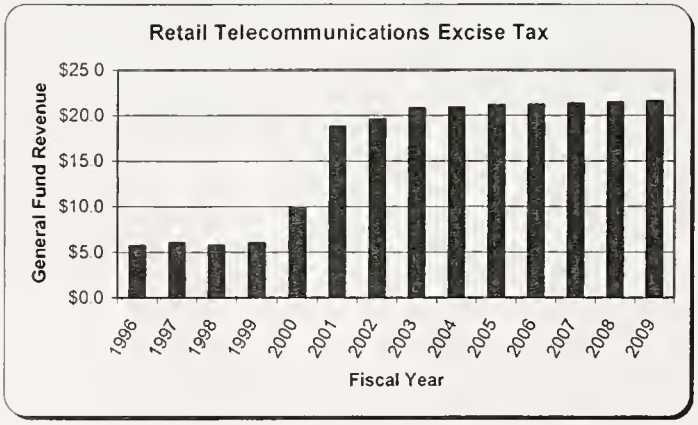
Montana imposes a 3.75% excise tax on retail telecommunications services as directed in 15-53-130, MCA. Telecommunications services are defined as two-way transmission of information over a telecommunications network that originates *or* terminates in the state, *and* is billed to a customer with a Montana service address. Telecommunications service providers are required to collect the tax and make quarterly payments within 60 days after the end of each quarter. All revenue is allocated to the general fund pursuant to 15-53-156, MCA.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from telecommunications excise tax for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Retail Telecommunications Excise Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	5.712	-
A 1997	6.045	5.83%
A 1998	5.773	-4.50%
A 1999	6.037	4.56%
A 2000	9.857	63.28%
A 2001	18.838	91.12%
A 2002	19.594	4.01%
A 2003	20.838	6.35%
A 2004	20.919	0.39%
A 2005	21.176	1.23%
A 2006	21.226	0.23%
F 2007	**21.357**	**0.62%**
F 2008	**21.488**	**0.62%**
F 2009	**21.621**	**0.62%**



The telecommunications excise tax replaced the telephone company license tax on January 1, 2000. The telecommunications excise tax was intended to replace revenue losses from lower property taxes on telephone company property. The large increases in FY 2000 and FY 2001 reflect the transition from the telephone company license tax to the retail telecommunications excise tax. General fund revenue growth is forecast to grow by 0.62% annually during FY 2007 through FY 2009.

Forecast Methodology and Projection Calculation

Retail telecommunications excise tax revenue is forecast using two steps: 1) calculate the average annual growth rate and 2) apply the growth rate.

Step 1: Estimate Average Annual Growth Rate

Since FY 2003, the growth of the telecommunications excise tax has slowed. Therefore, the average annual growth rate used in this forecast is the average annual growth rate from FY 2004 to FY 2006, or 0.62%. Table 3 shows the calculation for the average annual growth rate.

Table 2
Average Annual Growth Rate

Fiscal Year	Actual Rev.	Growth Rate
A 2004	20.919	0.39%
A 2005	21.176	1.23%
A 2006	21.226	0.23%
		1.85%
	÷	3
Avg. Annual Growth		0.62%

Step 2: Apply the Growth Rate

Table 3 shows the calculation for forecasting the telecommunications excise tax. The previous fiscal year revenue is multiplied by the estimated growth rate plus 100% to yield general fund revenue. Total general fund revenue is forecast to be $21.357 million in FY 2007, $21.488 million in FY 2008, and $21.621 million in FY 2009.

Table 3
Apply Annual Growth Rate

Fiscal Year	Prev. FY Rev.		Growth Rate		GF Revenue
F 2007	$21.226	X	100.62%	=	$21.357
F 2008	$21.357	X	100.62%	=	$21.488
F 2009	$21.488	X	100.62%	=	$21.621

Data Sources

Retail telecommunications excise tax revenue data is from SABHRS Report MTGL109.

INSTITUTIONAL REIMBURSEMENTS

Revenue Description

The Montana Department of Public Health and Human Services (DPHHS) operates facilities to treat persons with developmental disabilities and mental illnesses. The Montana Developmental Center in Boulder (MDC) serves persons with developmental disabilities. The Montana State Hospital in Warm Springs (MSH) and the Montana Mental Health Nursing Care Center in Lewistown (MMHNCC) treat persons with severe mental illnesses.

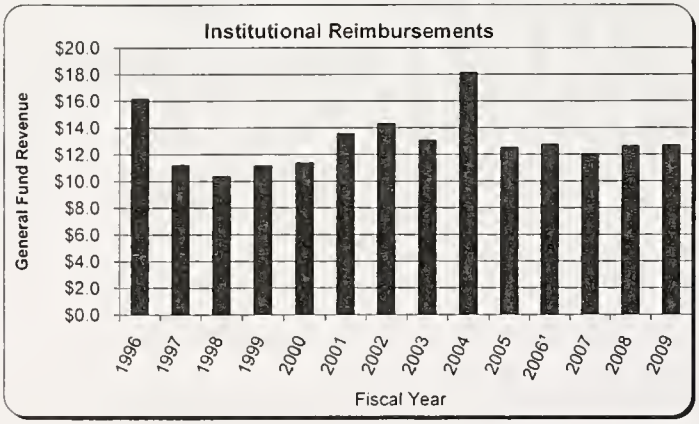
The department charges patients for treatment based on cost and on their ability to pay (53-1-405, MCA). Patients and their families, patients' insurance, Medicare, and Medicaid pay these charges. At MDC and MSH, payments go first to repay the institutions' mortgages (90-7-220 and 221, MCA). After the mortgage obligations are met, payments for care at the institutions are deposited in the general fund.

Historical and Projected Revenue

Table 1 shows actual institutional reimbursements going to the general fund for FY 1996 through FY 2006, and projections for FY 2007, FY 2008, and FY 2009.

Table 1
Institutional Reimbursements - General Fund Revenue
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	$ 16.142	-1.91%
A 1997	$ 11.158	-30.88%
A 1998	$ 10.335	-7.38%
A 1999	$ 11.136	7.75%
A 2000	$ 11.345	1.88%
A 2001	$ 13.554	19.47%
A 2002	$ 14.283	5.38%
A 2003	$ 13.043	-8.68%
A 2004	$ 18.110	38.86%
A 2005	$ 12.509	-30.93%
A 2006[1]	$ 12.728	1.75%
F 2007	**$ 12.013**	**-5.62%**
F 2008	**$ 12.608**	**4.96%**
F 2009	**$ 12.671**	**0.49%**



[1]FY 2006 is revised collection amount to include reimbursement of Medicare Part D expenses

Over the time period from FY 1996 through the present, there have been significant changes in both the institutions and in the way their costs are paid. In FY 1997 a

mental health managed care system was implemented for MSH and MMHNCC. The managed care contractor billed patients' families, insurance companies, Medicare, and Medicaid, and then deposited the funds in a special revenue account for the two institutions. This caused the large drop in institutional reimbursements to the general fund in FY 1997. The managed care contract was terminated in FY 2000, but the flow of funds remained the same.

New facilities have been built at MDC and MSH. Mortgage payments for these new facilities began in 1995 for MDC and in 1997 for MSH.

The MSH became Medicare-certified. This allows it to bill Medicare for more of eligible residents' expenses than it was able to in the past. While only about 5% of patient days are eligible for Medicare reimbursement, this significantly increased total reimbursements to MSH, beginning late in FY 2001. In FY 2004, the department received additional revenue from billing Medicare for services in previous years. However, in FY 2005, the Medicare reimbursement formula for MSH was changed and the department was required to refund some payments it had received in FY 2004.

Average populations have changed at some of the institutions. DPHHS moved some residents from one institution to another and moved some residents back into their communities in assisted-living programs or other arrangements. At the same time, court-ordered admissions have increased. As part of a lawsuit settlement, DPHHS agreed to move some of the residents of MDC to assisted-living facilities in their communities. Since these facilities are not state institutions, the state will not receive reimbursement for services at them. Also at MDC a separate, secure unit has been established. Services provided through this unit are not eligible for federal reimbursement through Medicaid.

Legislation passed by the 2003 Legislature (HB 722 and HB 743) significantly affected reimbursements by making state institutions subject to state health care facility taxes. These taxes, which are part of the cost basis for Medicaid reimbursement, increased reimbursements. Also, HB 727 closed Eastmont at the end of December 2003. This reduced reimbursements beginning in FY 2004. Through FY 2003, Medicaid payments for MSH and MMHNCC were deposited in a special revenue account. HB 121 requires that they be deposited in the general fund.

In mid-2004 the DPHHS and the federal Indian Health Service (IHS) began renegotiating the reimbursement policy for services provided by state facilities for individuals covered by the IHS. During the renegotiation the IHS has not made payment for state services, thereby reducing institutional reimbursements.

Forecast Methodology and Projection Calculation

At each institution, there are up to five sources of reimbursement for patients' costs: patients and their families; insurance; Medicare; Medicaid; and the Office of the Public Defender. There are four steps to estimating general fund receipts: 1) estimating daily reimbursement rates for each type of reimbursement at each institution; 2) estimating the population and number of care days for which each institution will be reimbursed; 3) multiplying the reimbursement rates by the number of care days to obtain reimbursement revenue; and 4) subtracting the institution's mortgage payments to derive the general fund revenue.

Step 1: Average Daily Reimbursements

The possible reimbursement sources are payments from patients and their families, insurance, Medicare, and Medicaid. Residents and their families are billed by DPHHS based on cost and their ability to pay. For adults in long-term care, the primary resource for these payments is Supplemental Security Income (SSI) disability payments. SSI and private reimbursement rates are based upon estimates provided by DPHHS. For each of the institutions, Table 2 shows the SSI and private reimbursement rates from patients and their families per day in FY 2006 and forecast reimbursement rates through FY 2009.

Table 2
Average per Day SSI and Family Reimbursement

Fiscal Year	MDC	MSH	MMHNCC
A 2006	$10.67	$14.95	$24.81
F 2007	**$10.83**	**$15.05**	**$24.99**
F 2008	**$10.99**	**$15.27**	**$25.37**
F 2009	**$11.16**	**$15.49**	**$25.75**

Table 3 shows the average insurance reimbursement per day for FY 2006 and the forecast average reimbursement for FY 2007 through FY 2009. These rates are insurance reimbursements for a few covered residents divided by the total number of care days for all residents, most of whom have no applicable coverage. The average amount of reimbursement for insurance is based upon reimbursement from insurance in FY 2006, adjusted for increases in the consumer price index.

Table 3
Average per Day Insurance Reimbursement

Fiscal Year	MDC	MSH	MMHNCC
A 2006	$0.04	$6.61	$1.01
F 2007	**$0.04**	**$6.77**	**$1.04**
F 2008	**$0.04**	**$6.90**	**$1.05**
F 2009	**$0.04**	**$7.00**	**$1.07**

Table 4 shows Medicare reimbursements per care day in FY 2006 and estimated Medicare reimbursements per care day for FY 2007, FY 2008, and FY 2009. Medicare provides coverage for medical costs for the aged and disabled. Medicare rates are set for each fiscal year by the Centers for Medicare and Medicaid Services (formerly the Health Care Financing Administration) using a formula that depends on medical cost inflation, past payments, growth in the number of persons covered, the type of health care service received, and the state and county where it is received. Medicare payments per day are based upon information provided by DPHHS.

Table 4
Average Per Day Medicare Reimbursement

Fiscal Year	MDC	MSH	MMHNCC
A 2006	$0.27	$24.41	$6.29
F 2007	**$0.27**	**$23.12**	**$12.00**
F 2008	**$0.27**	**$23.05**	**$12.00**
F 2009	**$0.27**	**$23.12**	**$12.00**

In mid-FY 2006 Medicare Part D coverage of prescription drugs began. Medicare Part D reimbursement of prescription drugs accounts for the increase between FY 2006 and FY 2007 at MMHNCC, during which Medicare Part D drug reimbursement will be in effect all year.

Table 5, on the next page, shows the daily reimbursement rates, the federal share of costs, federal ancillary payments, and the net Medicaid reimbursement rates. The information on which the forecasts in Table 5 are based was provided by DPHHS. Daily reimbursement rates for Medicaid are set at the beginning of each biennium. The rate for the first year of the biennium is set equal to the difference between the full daily cost of care and expected reimbursements from other sources. For the second year of the biennium, the same formula is used, but rates for the second year are limited to 102.6% of the first year's rates.

Medicaid pays costs that residents cannot. Therefore, Medicaid reimbursements per day equal the full cost rate less the patient and family reimbursements per day shown in Table 2.

Medicaid is a joint federal-state program, and only the federal portion comes to the state as a net reimbursement. The federal government pays a fixed share of the reimbursement for each care day. Medicaid also pays some ancillary service costs that are not on a daily basis, such as medications. Medicaid payments per day are based upon information provided by DPHHS.

Table 5
Federal Medicaid Reimbursements

Fiscal Year	Medicaid Full Cost Rate		Patient Payment per Day		Medicaid Daily Rate		Federal Share		Ancillary Payments		Federal Medicaid Daily Rate
----------Montana Developmental Center----------											
F 2007	$499.05	-	$10.83	=	$488.22	x	69.47%	+	$0.94	=	$340.11
F 2008	$668.93	-	$10.99	=	$657.94	x	68.68%	+	$0.96	=	$452.83
F 2009	$674.78	-	$11.16	=	$663.62	x	68.41%	+	$0.97	=	$454.96
----------Montana State Hospital----------											
F 2007	$23.95	-	$15.05	=	$8.90	x	69.47%	+	$0.00	=	$6.18
F 2008	$24.24	-	$15.27	=	$8.97	x	68.68%	+	$0.00	=	$6.16
F 2009	$24.53	-	$15.49	=	$9.03	x	68.41%	+	$0.00	=	$6.18
----------Montana Mental Health Nursing Care Center----------											
F 2007	$244.90	-	$24.99	=	$219.91	x	69.47%	+	$10.14	=	$162.91
F 2008	$248.57	-	$25.37	=	$223.20	x	68.68%	+	$10.14	=	$163.43
F 2009	$252.30	-	$25.75	=	$226.55	x	68.41%	+	$10.14	=	$165.12

Step 2: Population

Table 6 shows projected populations for FY 2007, FY 2008, and FY 2009, based upon information provided by DPHHS. As can be seen from the table, DPHHS expects the number of residents at both the MSH and the MMHNCC to be stable from FY 2007 through FY 2009. The average number of residents at the MDC is expected to decrease in FY 2008 and FY 2009 compared to FY 2007.

Table 6
Forecast Institutional Populations
Average Residents

Fiscal Year	MDC	MSH	MMHNCC
F 2007	73.0	186.1	80.2
F 2008	66.0	186.1	80.2
F 2009	66.0	186.1	80.2

Step 3: Reimbursements

Private reimbursement for a fiscal year is the average daily reimbursement times the number of care days. Medicaid reimbursement for a fiscal year is the average daily reimbursement times the number of Medicaid eligible residents. Care days are based on the average number of (eligible Medicaid) residents times 365 days in a year (366 in leap years). Tables 7 through 9 bring together the reimbursements by type for each institution and show the calculation of total reimbursements for each institution. The tables show non-Medicaid and Medicaid reimbursements separately because not all residents are eligible for Medicaid Table 7 shows total reimbursements for MDC.

Table 7
Forecast Reimbursements, Montana Developmental Center

Fiscal Year	Non-Medicaid Care Days		Non-Medicaid Average Daily Reimbursement		Medicaid Care Days		Medicaid Average Daily Reimbursement		Total
F 2007	26,645	x	$11.14	+	22,782	x	$340.11	=	$8,045,038
F 2008	24,156	x	$11.30	+	17,916	x	$452.83	=	$8,385,718
F 2009	24,090	x	$11.47	+	17,867	x	$454.96	=	$8,404,808

Table 8 shows total reimbursements for MSH. It includes $0.2 million per year in anticipated reimbursements from the Judiciary for the costs incurred in housing defendants in state institutions who have been found unfit to stand trial. The Judiciary is expected to assume this responsibility in FY 2008. The estimate is based on the executive budget funding recommendations.

Table 8
Forecast Reimbursements, Montana State Hospital

Fiscal Year	Non-Medicaid Care Days		Non-Medicaid Average Daily Reimbursement		Medicaid Care Days		Medicaid Average Daily Reimbursement		Judiciary		Total
F 2007	67,926	x	$44.94	+	67,926	x	$6.18	+	0.00	=	$3,472,118
F 2008	68,113	x	$45.22	+	68,113	x	$6.16	+	$200,000	=	$3,699,714
F 2009	67,926	x	$45.61	+	67,926	x	$6.18	+	$200,000	=	$3,718,160

Table 9 shows reimbursements for MMHNCC.

Table 9
Forecast Reimbursements, Montana Mental Health Nursing Care Center

Fiscal Year	Non-Medicaid Care Days		Non-Medicaid Average Daily Reimbursement		Medicaid Care Days		Medicaid Average Daily Reimbursement		Total
F 2007	29,273	x	$38.02	+	14,159	x	$162.91	=	$3,419,763
F 2008	29,353	x	$38.42	+	14,198	x	$163.43	=	$3,448,271
F 2009	29,273	x	$38.82	+	14,159	x	$165.12	=	$3,474,440

Step 4: General Fund Revenues

General fund revenue is total reimbursements minus debt service payments for MDC and MSH. Debt service payments were provided by DPHHS. Table 10 shows the calculation of general fund receipts from institutional reimbursements for service in FY 2007 through FY 2009.

Table 10
Institutional Reimbursements to the General Fund
($ millions)

Fiscal	----------Reimbursements----------					----Debt Service----			General
Year	MDC		MSH		MMHNCC	MDC		MSH	Fund
F 2007	$8.045	+	$3.472	+	$3.420	- $1.015	-	$1.909	= $12.013
F 2008	$8.386	+	$3.700	+	$3.448	- $1.017	-	$1.908	= $12.608
F 2009	$8.405	+	$3.718	+	$3.474	- $1.017	-	$1.910	= $12.671

Additional Information

In prior years, payment for services provided to individuals covered by the Indian Health Service (IHS) was also included in institutional reimbursements. Since mid-2004 the state and the IHS have been renegotiating the memorandum of understanding. During renegotiation the IHS has not made payment for services provided by the state for individuals who were, in past years, covered by the IHS. This estimate does not include any anticipated reimbursement from the IHS; however, if there is a settlement there may be additional institutional reimbursement revenue.

Data Sources

DPHHS provided actual and projected per day reimbursement rates and care days. Information on inflation rates is from Global Insight's July 2006 forecast.

LODGING FACILITY TAXES

Revenue Description

Pursuant to 15-65-111, MCA, Montana imposes a 4% lodging facility use tax on accommodations charges of hotels, motels, and campgrounds. Beginning June 1, 2003, Montana imposes an additional 3% sales tax on accommodations charges as stated in 15-68-102, MCA.

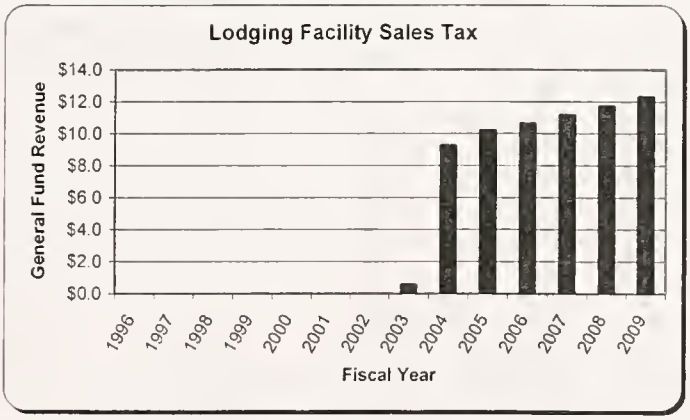
All revenue from the lodging facility sales tax is deposited in the general fund (15-68-820, MCA). In accordance with 15-65-121, MCA, the majority of revenue from the lodging facilities use tax is allocated to tourism promotion activities. The Department of Revenue receives funds from the lodging facilities use tax to cover the cost of collecting and administering the tax. A small portion of the lodging facilities use tax is refunded to the state agencies for the tax paid on employees' state business travel.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from the lodging facility sales tax for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Lodging Facility Sales Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996		
A 1997		
A 1998		
A 1999		
A 2000		
A 2001		
A 2002		
A 2003	0.571	-
A 2004	9.279	1524.31%
A 2005	10.201	9.94%
A 2006	10.679	4.69%
F 2007	**11.206**	**4.93%**
F 2008	**11.759**	**4.93%**
F 2009	**12.339**	**4.93%**



Only revenue from the lodging facility sales tax is deposited in the general fund. Thus, the general fund receives no revenue from accommodation taxes before FY 2003. The lodging facility sales tax was collected for only one month in FY 2003. The first full year of collections is FY 2004. Lodging facility sales tax revenue has shown an upward trend, which is expected to continue through FY 2009.

Forecast Methodology and Projection Calculation

Lodging facility taxes are forecast in two steps: (1) determine and apply the growth rate and (2) allocate the revenue to the appropriate funds.

Determine the Growth Rate

Although the lodging facility sales tax has only been collected for three full fiscal years, it has the same tax base as the lodging facility use tax. Thus, the historical growth rate of the use tax was used to forecast the lodging facility sales tax growth rate. From FY 1993 to FY 2006, the use tax grew at an average rate of 4.93% annually. The lodging facility use tax growth has varied from year to year, but statistical analyses found no relationship between the growth of collections and national economic trends or national spending on recreation. The lodging facility use tax growth appears to have been slower following summers with severe fire seasons, but future fire seasons are unpredictable. Therefore, the lodging facility tax revenues are projected to grow at 4.93% per year.

Table 2 shows the lodging facility use tax, the lodging facility sales tax, total lodging facility taxes, and the percent growth.

Table 2
Historical and Projected Tax Collections - Lodging Facility Taxes
($ millions)

Fiscal Year	Lodging Facility Use Tax	Percent Change	Lodging Facility Sales Tax	Percent Change	Total Lodging Facility Taxes	Percent Change
A 1993	$8,029,958				$8,029,958	
A 1994	$8,348,996	3.97%			$8,348,996	3.97%
A 1995	$8,684,736	4.02%			$8,684,736	4.02%
A 1996	$9,197,924	5.91%			$9,197,924	5.91%
A 1997	$9,509,673	3.39%			$9,509,673	3.39%
A 1998	$10,008,142	5.24%			$10,008,142	5.24%
A 1999	$10,773,707	7.65%			$10,773,707	7.65%
A 2000	$11,119,551	3.21%			$11,119,551	3.21%
A 2001	$11,286,821	1.50%			$11,286,821	1.50%
A 2002	$11,965,138	6.01%			$11,965,138	6.01%
A 2003	$12,169,036	1.70%	$571,237		$12,740,273	6.48%
A 2004	$13,702,861	12.60%	$9,278,658	1524.31%	$22,981,518	80.38%
A 2005	$14,596,301	6.52%	$10,200,914	9.94%	$24,797,215	7.90%
A 2006	$15,018,113	2.89%	$10,679,216	4.69%	$25,697,328	3.63%
	Avg. Growth	**4.93%**	**Avg. Growth**	**7.31%**	**Avg. Growth**	**9.36%**
F 2007	**$15,759,082**	**4.93%**	**$11,206,111**	**4.93%**	$26,965,192	**4.93%**
F 2008	**$16,536,609**	**4.93%**	**$11,759,002**	**4.93%**	$28,295,610	**4.93%**
F 2009	**$17,352,498**	**4.93%**	**$12,339,171**	**4.93%**	$29,691,669	**4.93%**

Allocate Revenue

All revenue from the facility use sales tax is allocated to the general fund. Revenue from the lodging facility use tax is allocated in the following manner:

1. The Department of Revenue retains lodging facility use tax revenue equal to the department's appropriation for administering the tax and makes refunds to state agencies for the tax that they paid on state employees' business travel. The Department of Revenue administrative share of lodging facility use tax revenue is estimated to be 1% of the total tax, while the state agency reimbursement is estimated to be 0.8% of the total tax. Both are the historical allocation amounts and have been constant over time.

2. The Montana heritage preservation and development account receives $400,000 through FY 2007, when it expires.

3. The remainder is allocated as follows:
 a. 1% to the Montana Historical Society for roadside historic sites and signs,
 b. 2.5% to the university system for tourism research,
 c. 6.5% to the Department of Fish, Wildlife and Parks for parks maintenance,
 d. 67.5% to the Department of Commerce for statewide tourism promotion, and
 e. 22.5% to regional tourism promotion agencies.

Table 3 shows lodging facility use tax allocation for FY 2007 through FY 2009.

Table 3
Lodging Facility Use Tax Allocation

Fiscal Year	FY2007	FY 2008	FY 2009
DOR Tax Administration	$ 157,591	$ 165,366	$ 173,525
State Agency Reimbursement	$ 126,073	$ 132,293	$ 138,820
Montana Heritage Preservation & Development Account	$ 400,000	$ -	$ -
Historical Society - Sites & Signs	$ 154,754	$ 162,389	$ 170,402
University System - Tourism Research	$ 386,885	$ 405,974	$ 426,004
DFWP - Parks Maintenance	$ 1,005,902	$ 1,055,532	$ 1,107,610
Commerce - Travel Promotion	$ 10,445,907	$ 10,961,291	$ 11,502,103
Regional Travel Promotion	$ 3,481,969	$ 3,653,764	$ 3,834,034
Total Revenue	**$ 15,759,082**	**$ 16,536,609**	**$ 17,352,498**

Data Sources

Accommodations tax data is from SABHRS Report MTGL0109.

HEALTH CARE FACILITY UTILIZATION FEES

Revenue Description

Montana imposes fees per bed day on nursing facilities and intermediate care facilities for the developmentally disabled. The fee for nursing facilities was $2.80 per bed day through FY 2002. The fee was raised to $4.50 in FY 2003, to $5.30 in FY 2005, and to $7.05 in FY 2006. In FY 2007 it will be $8.30 (15-60-102, MCA). Through FY 2002, all fees were allocated to the general fund. Beginning in FY 2003, $2.80 of the fee per day is allocated to the general fund and the remainder is allocated to a state special revenue fund.

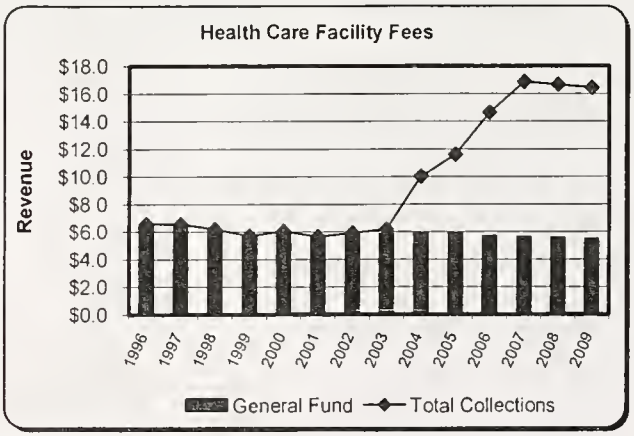
The fee for intermediate care facilities for the developmentally disabled is 6% of revenue (15-67-102, MCA). Fees collected from the facilities operated by the Department of Public Health and Human Services are allocated 30% to the general fund and 70% to the prevention and stabilization special revenue fund.

Historical and Projected Revenue

Table 1 shows health care facility fee collections from FY 1996 through FY 2006 and projections for FY 2007 through FY 2009.

Table 1
Health Care Facility Utilization Fees
$ (millions)

Fiscal Year	Total Collections	General Fund	Percent Change
A 1996	$6.580	$6.580	-
A 1997	$6.572	$6.562	-0.26%
A 1998	$6.200	$6.200	-5.52%
A 1999	$5.713	$5.713	-7.86%
A 2000	$6.055	$6.055	5.98%
A 2001	$5.656	$5.656	-6 59%
A 2002	$5.918	$5.918	4.64%
A 2003	$6.178	$5.860	-0.99%
A 2004	$10.022	$5.916	0.96%
A 2005	$11.602	$5.912	-0.06%
A 2006	$14.650	$5.712	-3.39%
F 2007	**$16.872**	**$5.649**	**-1.10%**
F 2008	**$16.665**	**$5.577**	**-1.26%**
F 2009	**$16.428**	**$5.497**	**-1.44%**



General fund revenue care facility fees are forecast to decrease by 1.10% in FY 2007 to $5.649 million, decrease by 1.26% in FY 2008 to $5.577 million, and decrease by 1.44% in FY 2009 to $5.497 million. The decrease in general fund revenue over the forecast period is primarily due to the decline in bed days at non-state nursing facilities. Health care facility

utilization fees are forecast to increase from $14.65 million in FY 2006 to $16.872 million in FY 2007 because of the increase in the facility fee and allocation of the increased fee revenue to the nursing facilities fee account (HB 749, 2005 Session). Health care facility fees are forecast to decline to $16.665 million in FY 2008 and to $16.428 million in FY 2009.

Background

Nursing facility fees were enacted in HB 93 of the 1991Session. The fee was $1 per bed day for FY 1992 and $2 per bed day for FY 1993 and applied only to bed days reimbursed by a third-party payer, such as insurance or a public assistance program. All revenue was deposited in the general fund. HB 333 (1993 Session) applied the fee to all bed days beginning in FY 1994. HB 333 also raised the fee to $2.80 beginning in FY 1995, and allocated all revenue to the nursing facilities fee state special revenue account. SB 83 (1995 Session) allocated all revenue to the general fund beginning in FY 1996.

The 2003 Legislature passed three bills that changed health care facility fees. HB 705 set the nursing facilities fee at $4.50 in FY 2004 and $5.30 beginning in FY 2005 and allocated the additional revenue to the nursing facilities fee account. HB 743 made the Montana Mental Health Nursing Care Center subject to the nursing facility fee and allocated 30% of fees from this facility to the general fund and 70% to a new prevention and stabilization account. HB 722 created a new fee equal to 5% of charges for care that applied only to the Montana Developmental Center. The revenue from the new fee is allocated 30% to the general fund and 70% to the prevention and stabilization fund.

In 2005 the Legislature passed two bills, HB 749 and SB 82, which changed health care facility fees. HB 749 increased the facility bed tax to $7.05 per day in FY 2006 and to $8.30 per day in FY 2007. The increased revenue from fees collected from non-state facilities is allocated to the nursing facilities fee account. SB 82 increased the bed tax on intermediate facilities for the developmentally disabled from 5% to 6% and amended the definition of facilities to which the 6% bed tax applies to include intermediate care facilities for the mentally retarded. SB 82 was effective immediately on passage and was retroactive in its effect, back to the beginning of tax year 2005.

Forecast Methodology and Projection Calculation

Revenue is estimated separately for fees from private nursing homes, the Montana Mental Health Nursing Care Center (MMHNCC), and the Montana Developmental Center (MDC). The estimate is based on forecast bed days for the MMHNCC and budget estimates for the MDC provided by the DPHHS. Forecast bed days for non-state owned facilities are based on the historic trend.

Non-State Facilities

Table 2 shows taxable bed days for non-state facilities in FY 1996 through FY 2006 and projected bed days for FY 2007 through FY 2009.

Bed days at private nursing homes and public nursing homes other than the MMHNCC and the MDC have been decreasing over time as other options have become available for persons who need some assistance, but do not require full-time nursing care. From FY 1996 through FY 2006, taxable bed days declined at an average rate of 2.04%. However, beginning in 2001 the rate of decline slowed and the average rate of decline over the period from 2001 through 2006 is 1.57%. Bed days are projected to continue to decline at the rate of 1.57% per year in FY 2007 through FY 2009.

Table 2
Taxable Bed Days at Non-State Facilities

Fiscal Year	Taxable Bed Days	Percent Change
A 1996	2,364,601	-
A 1997	2,307,955	-2.40%
A 1998	2,242,418	-2.84%
A 1999	2,160,188	-3.67%
A 2000	2,113,805	-2.15%
A 2001	2,083,501	-1.43%
A 2002	2,072,696	-0.52%
A 2003	2,078,448	0.28%
A 2004	2,008,017	-3.39%
A 2005	1,979,893	-1.40%
A 2006	1,924,611	-2.79%
F 2007	**1,894,318**	**-1.57%**
F 2008	**1,864,501**	**-1.57%**
F 2009	**1,835,154**	**-1.57%**

Table 3 shows revenue from the bed days projected in Table 2. General fund revenue is calculated by multiplying bed days by $2.80 which is the general fund portion of the per bed day fee. Revenue to the nursing facility utilization fee account is calculated by multiplying bed days by $5.50, the portion of the fee dedicated to this account.

Table 3
Revenue from Non-State Nursing Facilities

		General Fund		Nursing Facility Utilization Fee Account	
Fiscal Year	Bed Days	Fee per Bed Day	Collections	Fee per Bed Day	Collections
F 2007	1,894,318	$2.80	$5,304,090	$5.50	$10,418,747
F 2008	1,864,501	$2.80	$5,220,603	$5.50	$10,254,757
F 2009	1,835,154	$2.80	$5,138,431	$5.50	$10,093,347

Revenue is declining over the forecast period because fewer bed days are estimated.

State Facilities

Table 4 shows revenue from the Montana Mental Health Nursing Care Center (MMHNC).

Bed days are forecast by the Department of Public Health and Human Services, which operates the facility. Total collections equal the number of bed days multiplied by the fee per bed day of $8.30. Thirty percent of collections are allocated to the general fund and 70% are allocated to the prevention and stabilization account.

Table 4
Nursing Facility Utilization Fee - MMHNCC

Fiscal Year	MMHNCC Bed Days		Fee per Bed Day		Total Collections	General Fund (30%)	Prevention and Stabilization (70%)
F 2007	29,273	x	$8.30	=	$242,966	$72,890	$170,076
F 2008	29,353	x	$8.30	=	$243,630	$73,089	$170,541
F 2009	29,273	x	$8.30	=	$242,966	$72,890	$170,076

The Montana Developmental Center is the only facility subject to the intermediate care facility utilization fee. The fee is 6% of the cost of care billed to residents and third parties.

Table 5 shows revenue from the Montana Developmental Center. The cost of care is estimated by the Department of Public Health and Human Services, which operates the facility, based on planned numbers of residents and expected costs. Thirty percent of collections are allocated to the general fund and 70% are allocated to the prevention and stabilization account.

Table 5
Intermediate Care Facility Utilization fee

Fiscal Year	MDC Cost of Care		Tax Rate	Total Collections	General Fund (30%)	Prevention and Stabilization (70%)
F 2007	$15,104,377	x	6%	$906,263	$271,879	$634,384
F 2008	$15,762,921	x	6%	$945,775	$283,733	$662,043
F 2009	$15,883,530	x	6%	$953,012	$285,904	$667,108

Total Collections

Total collections for each fund are calculated by summing the collections from non-state facilities, shown in Table 3, and collections from the two state facilities, shown in Tables 4 and 5. Table 6 shows total projected collections for each fund and the total for all funds.

Table 6
Total Health Care Facilities Utilization Fee Collections
($ million)

Fiscal Year	General Fund		Nursing Facility Utilization Fee Account		Prevention and Stabilization Account		Total Collections
F 2007	$5.649	+	$10.419	+	$0.804	=	$16.872
F 2008	$5.577	+	$10.255	+	$0.833	=	$16.665
F 2009	$5.497	+	$10.093	+	$0.837	=	$16.428

The general fund forecast is $5.649 million in FY 2007, $5.577 million in FY 2008, and $5.497 in FY 2009. General fund revenue decreases as non-state facilities bed days are expected to decrease 1.57% each year.

Data Sources

Past collections are from the state accounting system. Past bed days are from the Department of Revenue as reported on tax returns. Future bed days and cost of care at MMHNCC and MDC are from the Department of Public Health and Human Services.

RENTAL CAR SALES TAX

Revenue Description

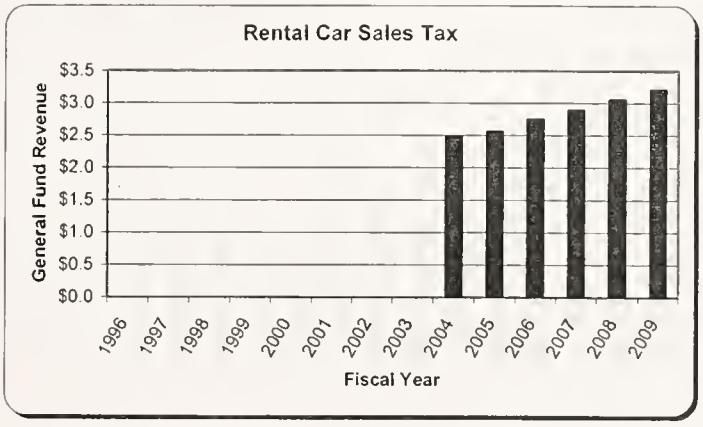
In accordance with 15-68-102, MCA, Montana imposes a 4% tax on rental vehicle sales. The rental vehicle sales tax collections began in FY 2004. All revenue from the rental car sales tax is allocated to the general fund (15-68-820, MCA).

Historical and Projected Revenue

Table 1 shows actual general fund revenue from the rental car sales tax for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Rental Car Sales Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996		
A 1997		
A 1998		
A 1999		
A 2000		
A 2001		
A 2002		
A 2003		
A 2004	2.486	-
A 2005	2.566	3.20%
A 2006	2.755	7.39%
F 2007	**2.901**	**5.29%**
F 2008	**3.054**	**5.29%**
F 2009	**3.216**	**5.29%**



The rental car sales tax has only been collected for three fiscal years. Rental car sales tax revenue grew 3.20% in FY 2004 and 7.39% in FY 2005. The average growth rate of these two years, 5.29%, is used to forecast rental car sales tax revenue for FY 2007 through FY 009.

Forecast Methodology and Projection Calculation

Rental car sales tax revenue is forecast using the average growth rate from FY 2004, the first year of the tax, to FY 2006. Revenue from the rental car sales tax during this period grew at a rate of 5.29% per year.

To forecast revenue for FY 2007 through FY 2009, the previous year's revenue is multiplied by 1.0529, or 105.29%. Table 2 shows rental car sales tax revenue from FY 2007 through FY 2009. Rental car sales tax revenue is forecast to be $2.901 million in FY 2007, $3.054 million in FY 2008, and $3.216 million in FY 2009.

Table 2
Rental Car Sales Tax Revenue
FY 2007 to FY 2009
($ millions)

Fiscal Year	Previous Year's Revenue	x	Growth Rate	=	Total Revenue
2007	$2.755	x	105.29%	=	**$2.901**
2008	$2.901	x	105.29%	=	**$3.054**
2009	$3.054	x	105.29%	=	**$3.216**

Data Sources

Rental car sales tax revenue data is from SABRHS Report MTGL109.

LOTTERY REVENUE

Revenue Description

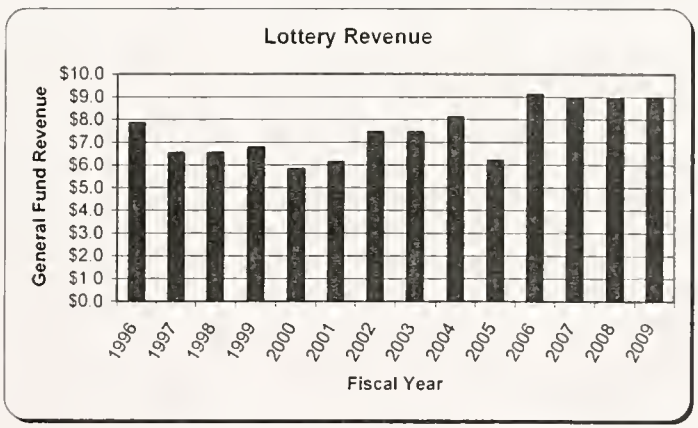
Section 23-7-402, MCA, directs the net revenue from the operation of the lottery to be deposited quarterly in the general fund. Net revenue from the lottery includes the sum of ticket sales, short-term investment pool and Multi-State Lottery Association interest and miscellaneous income, less payment of prizes, commissions, and operating expenses.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from the state lottery for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Lottery Revenue
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	7.859	-8.55%
A 1997	6.553	-16.61%
A 1998	6.564	0.17%
A 1999	6.780	3.28%
A 2000	5 841	-13.85%
A 2001	6.137	5.08%
A 2002	7.467	21.66%
A 2003	7.453	-0.18%
A 2004	8.116	8.89%
A 2005	6.223	-23.33%
A 2006	9.110	46.41%
F 2007	**8.925**	**-2.03%**
F 2008	**8.933**	**0.08%**
F 2009	**8.975**	**0.47%**



Since FY 1995 all net revenue is deposited in the general fund. Lottery revenue generally declined until FY 2000. In fiscal years 2002, 2003, and 2004 lottery revenue increased to over $7 million each year. However, these numbers also include one-time adjustments due to changes in accounting practices and unclaimed prize refunds totaling $428,618 in FY 2002, $333,626 in FY 2003, and $428,959 in FY 2004. It should be noted that FY 2004 revenues also increased due to an unusually high Powerball® jackpot of over $200 million which improved ticket sales. The decrease from FY 2004 to FY 2005 is due to the large Powerball® jackpot in the first quarter of FY 2004 increasing revenues, along with the aforementioned $428,959 one-time upward

adjustment in FY 2004 due to a rebalancing of prize reserve funds from the Multi-State Lottery Association (MUSL). The 46.4% increase in FY 2006 is largely due to the changes made to the Powerball® gaming matrix. The new matrix decreases odds of winning to provide a greater number of and larger jackpots. These conditions increase overall participation in lottery gaming and, hence, encourage revenue growth.

General fund revenue is projected to be $8.925 million in FY 2007, $8.933 million in FY 2008, and $8.975 million in FY 2009. The change in the Powerball® gaming matrix is anticipated to yield relatively higher revenue amounts in FY 2007 through FY 2009. Additionally, the lottery gaming system was completely depreciated and amortized by March 2006, further reducing the cost of operation for FY 2007 through FY 2009. The 2.03% decrease in revenue in FY 2007 is projected due to the unusually high increase in revenue in FY 2006. This estimate projects that larger Powerball® jackpots will not likely draw as much participation in FY 2007 as potential gamers have likely become more accustomed to seeing the higher jackpot amounts and less enticed to play.

Forecast Methodology and Projected Calculation

General fund revenue from the lottery is determined by 1) calculating gross revenues; 2) calculating prizes and commissions; 3) calculating operating expenses; and 3) calculating net lottery revenue.

Step 1: Calculate Gross Revenues

Table 2 shows historical and forecast gross receipts, adult population, and per capita receipts for FY 1996 through FY 2009. Interest and miscellaneous income make up less than one-half percent of total revenue. Since it is such a small proportion of total revenue, it is aggregated into gross receipts for estimation purposes.

In FY 1997, per capita receipts hit its historic low point. Per capita receipts were stable over the period FY 1998 through FY 2001, and then began increasing in FY 2002 due to large jackpots, new games, and new terminals. In FY 2006, the aforementioned Powerball® gaming matrix changed, yielding three jackpots over $200 million and hence greater participation.

Table 2
Per Capita Lottery Receipts
FY 1996 through FY 2009
($ millions)

Fiscal Year	Gross Receipts	MT Adult* Population	Per Capita Receipts
A 1996	$32.021	693,450	$46.18
A 1997	$28.512	699,017	$40.79
A 1998	$30.119	704,057	$42.78
A 1999	$30.386	710,729	$42.75
A 2000	$30.261	718,917	$42.09
A 2001	$30.699	729,222	$42.10
A 2002	$33.817	736,177	$45.94
A 2003	$34.774	748,052	$46.49
A 2004	$36.736	761,039	$48.27
A 2005	$33.841	772,089	$43.83
A 2006	$39.929	778,217	$51.31
Average (FY 2002 through FY 2005):			**$46.13**
F 2007	**$38.128**	**782,579**	**$48.72**
F 2008	**$38.323**	**786,574**	**$48.72**
F 2009	**$38.506**	**790,334**	**$48.72**

*Source. Global Insight, Inc. Forecast of MT Population Age 15 and Over

The estimated percentage of per capita receipts for FY 2007 through FY 2009 is $48.72. This is the average of the per capita receipts for FY 2002 through FY 2005 ($46.13) and the FY 2006 per capita receipts ($51.31).
(($51.31 + $46.13) ÷ 2 = $48.72)

The upward adjustment is made to account for the new Powerball® gaming matrix which is expected to continue to earn more revenue, but not likely as much as in FY 2006 as people become accustomed to higher jackpots. Forecast gross receipts are calculated by multiplying estimated Montana adult population by estimated per capita receipts. As shown in Table 2 gross receipts are estimated to be $38.128 million in FY 2007, $38.323 million in FY 2008, and $38.506 million in FY 2009.

Step 2: Calculate Prizes and Commissions

Table 3 shows historic gross receipts, prizes and commissions, and prizes and commissions as a percent of receipts. The share of gross receipts represented by prizes and com-missions has remained relatively constant over time. Prizes and commissions, as a percent of total receipts, are anticipated to remain at the FY 2002 through FY 2006 average level of 57.41%.

Prizes and commissions are estimated to be $21.889 million in FY 2007, $22.001 million in FY 2008, and $22.106 million in FY 2009.

Table 3
Prizes and Commissions as % of Receipts
FY 1997 through FY 2009
($ millions)

Fiscal Year	Gross Receipts	Prizes & Comm.	Prizes & Comm. % of Receipts
A 1997	$28.512	$15.878	55.69%
A 1998	$30.119	$16.971	56.35%
A 1999	$30.386	$16.735	55.08%
A 2000	$30.261	$17.321	57.24%
A 2001	$30.699	$17.462	56.88%
A 2002	$33.817	$19.277	57.00%
A 2003	$34.774	$19.932	57.32%
A 2004	$36.736	$20.771	56.54%
A 2005	$33.841	$19.769	58.42%
A 2006	$39.929	$23.056	57.74%
Average (FY 2002 - FY 2006):			**57.41%**
F 2007	**$38.128**	**$21.889**	**57.41%**
F 2008	**$38.323**	**$22.001**	**57.41%**
F 2009	**$38.506**	**$22.106**	**57.41%**

Step 3: Calculate Operating Expenses

Total operating expenses are comprised of two components: (1) other operating expenses and (2) depreciation and amortization.

Table 4 shows the percent that operating expenses, without depreciation and amortization, are of gross receipts for FY 1996 through FY 2006. Other operating

expenses, as a percent of gross receipts, have remained stable over time, and are anticipated to remain at the five-year average from FY 2002 through FY 2006 of 19.10%.

Table 4
Other Operating Expenses as a Percent of Receipts
FY 1996 through FY 2006
($ millions)

Fiscal Year	Total Operating Expenses	-	Depreciation and Amortization	=	Other Operating Expenses	÷	Gross Receipts	=	Other Oper. Exp. % of Gross Rec.
1996	$6.586	-	$0.090	=	$6.496	÷	$32.021	=	20.29%
1997	$6.031	-	$0.097	=	$5.934	÷	$28.512	=	20.80%
1998	$6.459	-	$0.059	=	$6.400	÷	$30.119	=	21.25%
1999	$6.473	-	$0.232	=	$6.242	÷	$30.386	=	20.54%
2000	$7.099	-	$0.759	=	$6.341	÷	$30.261	=	20.95%
2001	$7.092	-	$0.784	=	$6.308	÷	$30.699	=	20.55%
2002	$7.501	-	$0.870	=	$6.631	÷	$33.817	=	19.61%
2003	$7.722	-	$1.053	=	$6.668	÷	$34.774	=	19.18%
2004	$7.867	-	$1.064	=	$6.802	÷	$36.736	=	18.52%
2005	$7.911	-	$1.070	=	$6.842	÷	$33.841	=	20.22%
2006	$7.964	-	$0.791	=	$7.174	÷	$39.929	=	17.97%
							Average (FY 2002 through FY 2006)	=	**19.10%**

The lottery gaming system was completely depreciated by March 2006. Therefore, depreciation is expected to further decline in FY 2007 and stabilize at $0.035 million in FY 2008 and FY 2009.

Table 5 shows the calculation of total operating expenses for FY 2007 through FY 2009. Based on the forecast gross receipts from Table 2, other operating expenses are forecast to be $7.282 million in FY 2007; $7.320 million in FY 2008; and $7.355 million in FY 2009.

Table 5
Calculation of Operating Expenses
FY 2007 through FY 2009
($ millions)

Fiscal Year	Gross Receipts	×	Other Operating Expenses % of Gross Receipts	=	Other Operating Expenses	+	Depreciation and Amortization	=	**Total Operating Expenses**
2007	$38.128	×	19.10%	=	$7.282	+	$0.031	=	**$7.314**
2008	$38.323	×	19.10%	=	$7.320	+	$0.035	=	**$7.389**
2009	$38.506	×	19.10%	=	$7.355	+	$0.035	=	**$7.425**

Step 4: Calculate Net Lottery Revenue

The lottery revenue transfer to the general fund equals gross receipts minus disbursements in prizes, commissions, and operating expenses. Table 6 shows forecast transfers to the general fund for FY 2007 through FY 2009. Lottery general fund revenue for the forecast period is $8.925 million in FY 2007, $8.933 million in FY 2008, and $8.975 million in FY 2009.

Table 6
Projected Lottery General Fund Revenue
FY 2005 through FY 2007
($ millions)

Fiscal Year	Projected Gross Receipts	-	Projected Prizes and Commissions	-	Projected Operating Expenses	=	Projected General Fund
2007	$38.128	-	$21.889	-	$7.314	=	**$8.925**
2008	$38.323	-	$22.001	-	$7.389	=	**$8.933**
2009	$38.506	-	$22.106	-	$7.425	=	**$8.975**

Data Sources

Data for the Lottery revenue estimate were obtained from SBAS reports, SABHRS Report MTGL0109, and Montana Lottery staff. Population data was provided by Global Insight (July 2006).

HIGHWAY PATROL FINES

Revenue Description

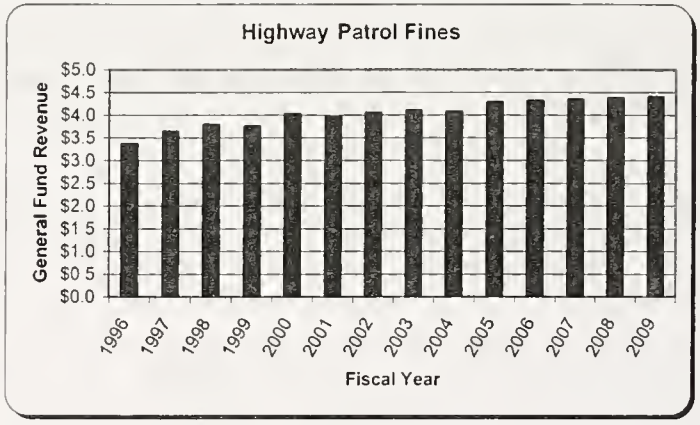
Highway patrol fines are provided for in Title 61, Chapter 8, parts 3 and 7, MCA. Disposition of these fines is provided for in 3-10-601, 53-9-109, and 61-12-701, MCA. Generally, citations given out by highway patrolmen are collected in justice court. Highway patrol fines are distributed 50% to the county general fund and 50% to the state general fund, pursuant to 3-10-601, MCA. Of the 50% of each fine the State of Montana receives, 100% is deposited in the general fund.

Historical and Projected Revenues

Table 1 shows actual general fund revenue from highway patrol fines for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Highway Patrol Fines General Fund Revenue
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	$3.374	-1.53%
A 1997	$3.644	8.00%
A 1998	$3.801	4.31%
A 1999	$3.759	-1.11%
A 2000	$4.028	7.16%
A 2001	$3.981	-1.16%
A 2002	$4.062	2.04%
A 2003	$4.111	1.21%
A 2004	$4.084	-0.64%
A 2005	$4.293	5.10%
A 2006	$4.316	0.55%
F 2007	**$4.348**	**0.74%**
F 2008	**$4.381**	**0.74%**
F 2009	**$4.413**	**0.74%**



Highway patrol fine revenue has shown a general upward trend, with collections increasing by an average of 2.13% per year between FY 1996 and FY 2006. However, this growth is cyclical. Each cycle is lead by a one to two year sharp increase in collections followed by several years of modest growth. With 5.10% growth, FY 2005 is the most recent peak in highway patrol fine collections. Highway patrol fine revenue in FY 2006, with only 0.55% growth, further supports highway patrol revenue peaking in 2005. In line with historical data, FY 2007 through FY 2009 should have only slight growth in highway patrol fine collections. Sharp increases in highway patrol fine collections are often caused by legislative changes. For example, due to the most

recent major change, the re-establishment of numeric speed limits, highway patrol fine collections grew by over 7% in FY 2000.

Forecast Methodology and Projection Calculation

There are two steps to forecasting highway patrol fine revenue. First, examine the growth trends of highway patrol fine revenue. Second, apply the appropriate growth rate for FY 2007 to FY 2009.

Examine Growth Trends

Highway patrol fine revenue from FY 1996 to FY 2006 exhibits a cyclical pattern with two modes of growth. Table 2 shows these modes of growth by defining a higher level of growth as annual percent change of over 5% and a lower level of growth as annual percent change of less than 5%. Based upon data from FY 1996 to FY 2006, the average growth rate for periods of strong growth, FY 1997, FY 2000, and FY 2005, is 6.75%. The average growth rate for periods of low growth, FY 1998, FY 1999, FY 2001 through FY 2004, and FY 2006, is 0.74%. The total average growth rate for FY 1997 to FY 2006 is 2.13%

Table 2
Highway Patrol Fine Revenue
Growth Rates
FY 1997 through FY 2009

Fiscal Year	Percent Growth	Over 5%	Under 5%
1997	8.00%	8.00%	
1998	4.31%		4.31%
1999	(1.11%)		(1.11%)
2000	7.16%	7.16%	
2001	(1.16%)		(1.16%)
2002	2.04%		2.04%
2003	1.21%		1.21%
2004	(0.64%)		(0.64%)
2005	5.10%	5.10%	
2006	0.55%		0.55%
2007	**0.74%**		**0.74%**
2008	**0.74%**		**0.74%**
2009	**0.74%**		**0.74%**
Average	**2.13%**	**6.75%**	**0.74%**

In FY 2006, highway patrol fine revenue had small growth of only 0.55%. While revenues are expected to have positive growth and increase annually through FY 2009, the slower growth in highway patrol fine revenue is expected to continue through FY 2009 with an annual growth rate of 0.74%, which is simply the average growth rate of the lower-growth fiscal years.

Apply Growth Rate

Table 3 shows forecast highway patrol revenue through FY 2009. Based on annual growth of 0.74% annually, general fund revenue is forecast to total $4.348 million in FY 2007, $4.381 million in FY 2008, and $ 4.413 million in FY 2009.

Table 3
Calculation of Highway Patrol Fine Revenue
FY 2007 through FY 2009
($ millions)

Fiscal Year	Previous FY Collection		Total		Annual Growth		Forecast Revenue
F 2007	4 316	x	100%	+	0.74%	=	**$4.348**
F 2008	4.348	x	100%	+	0.74%	=	**$4.381**
F 2009	4 381	x	100%	+	0 74%	=	**$4.413**

Data Source - Highway patrol fine revenue is from SABHRS MTGL109 Report.

INVESTMENT LICENSES AND PERMITS

Revenue Description

Persons who plan to sell securities in Montana must register with the State Auditor and pay fees as specified in 30-10-209, MCA. The fee to register as a broker-dealer or investment advisor is $200 a year. The fee for salespersons and representatives working for a broker-dealer or investment advisor is $50.

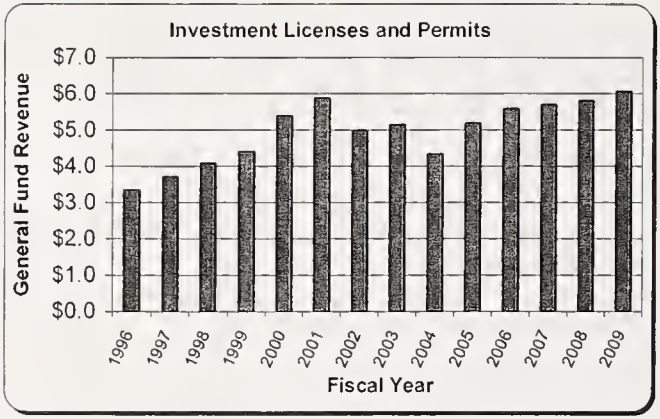
Newly issued securities that are not regulated at the federal level, traded on a regulated or self-regulating exchange, or otherwise exempt from state regulation must be registered with the State Auditor's office. The first year they are offered, the registration fee is $200 plus 0.1% of the value over $100,000, up to a maximum fee of $1,000. In succeeding years, the registration may be renewed for a fee of 0.1% of the value of securities to be offered that year with a minimum of $200 and a maximum of $1,000.

Historical and Projected Revenues

Table 1 shows actual general fund revenue from investment licenses and permits for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Investment Licenses and Permits - General Fund Revenue
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	$3.344	7.90%
A 1997	$3.710	10.96%
A 1998	$4.086	10.12%
A 1999	$4.413	8.02%
A 2000	$5.390	22.12%
A 2001	$5.889	9.26%
A 2002	$4.992	-15.23%
A 2003	$5.142	3.00%
A 2004[1]	$4.334	-15.71%
A 2005	$5.192	19.80%
A 2006	$5.584	7.54%
F 2007	**$5.700**	**2.08%**
F 2008	**$5.806**	**1.86%**
F 2009	**$6.071**	**4.56%**



[1]FY 2004 is revised collection amount. There was a miscoding of revenue of $500,000.

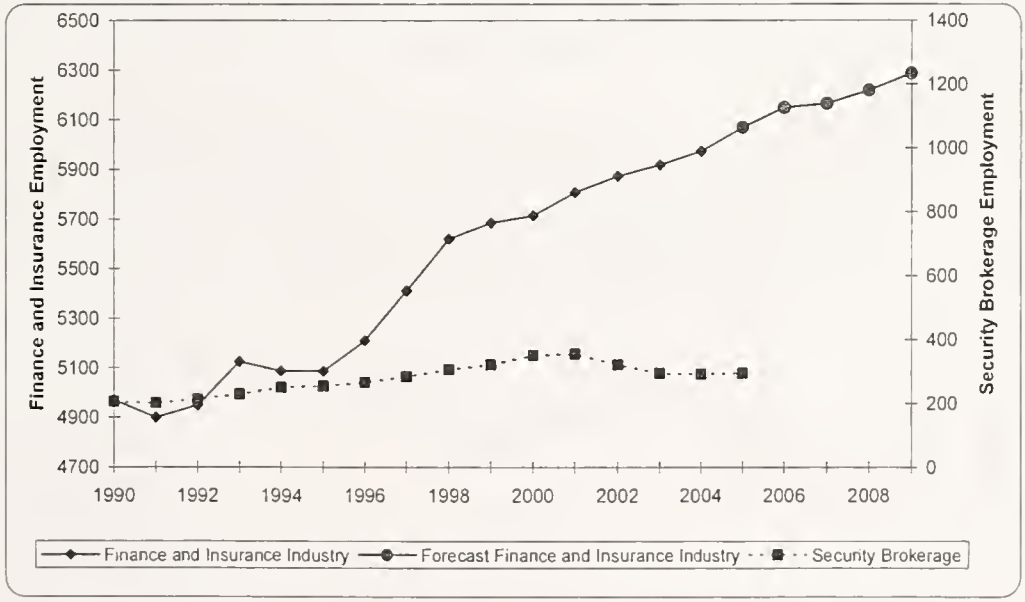
Revenue grew rapidly during the stock market boom from 1994 through 2001 as more persons registered to sell securities. Following the stock market decline, revenue dropped

significantly but has recovered substantial ground since FY 2004. Revenue is projected to continue to grow at a modest rate over the forecast time period.

Forecast Methodology and Projection Calculation

The basic fee structure of securities licenses and permits has not changed during the period shown in Table 1. Changes in revenue have resulted from increases or decreases in the number of securities licenses issued in the state. However, the industry itself has gone through changes. The security brokerage industry grew rapidly from 1990 through 2001, both nationally and in Montana. Graph 1 shows national employment in the security brokerage industry and in the finance and insurance sector as a whole from 1990 through 2005, along with Global Insight's forecast of employment in the finance and insurance sector for 2006 through 2009. Employment in the finance and insurance sector is measured on the left axis, and employment in the security brokerage industry is measured on the right axis.

Graph 1
National Employment in Finance and Insurance Industry and in Security Brokerage
(thousands)



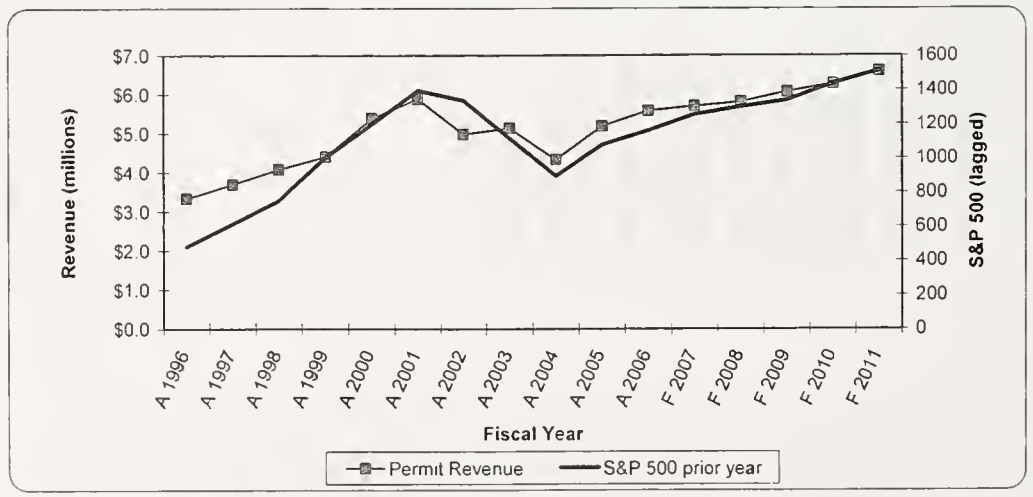
National employment in the security brokerage industry peaked in April 2001 and has declined by 17% since then. Investment license revenue peaked in FY 2001, at the same time that national employment in the industry peaked. During that same period both the number and value of shares traded increased substantially; for example, on the New York

Stock Exchange the volume of round lots (a unit of trade) went from 39.9 billion in 1990 to 311 billion in 2001 and the annual value of shares traded went from $1,336 billion in 1990 to $10,645 billion in 2001.

Growth of the securities brokerage industry through early 2001 was fueled by the run up in stock prices, and by an increase in the number of people participating in financial markets. As people saw significant increases in the value of their financial portfolios, they were willing to pay for more services from brokerage firms such as financial advice and frequent securities trades to take advantage of changes in the market. After the decline in the stock market in 2001, individuals have been less willing to pay for some of the extra services that they bought during the 1990s. At the same time, there have been significant productivity increases in supplying basic brokerage services. Customers can place orders online and the processing of trades has become more automated. Many securities transactions require less labor per transaction than in the past. The result of all these changes was declining employment in the security brokerage industry. This is reflected in security license revenue, which fell by 15.2% in FY 2002, grew slowly in FY 2003, and then declined again by 15.7% in FY 2004.

Since 2003, investment permit revenues appear to have returned to a more consistent relationship to the general equity markets. Graph 2 illustrates the relationship between revenue from investment permits (scale shown on the left side of the graph) and the Standard & Poor's common stock index of 500 companies (scale shown on the right side of the graph). The Standard & Poor's 500 Index (the S&P 500) shown in Graph 2 is the average for the prior year.

Graph 2
Investment Permit Revenues and S&P 500 for the Prior Year
FY 1996-2006 Actual and FY 2007-2009 Forecast



The relationship between the prior year S&P 500 index average and investment permit revenues was used to estimate a linear regression model. Based upon the model results, an increase of 1 point in the prior year S&P 500 index means an increase of $2,614.42 in investment permit revenues. As can be seen in Graph 2 the chosen explanatory variable, prior year S&P 500 index average, has a fairly good relationship with permit revenue. Statistically this is represented by the relationship having an adjusted R-square of .86 (where 1.00 represents perfect correlation).

The model was used to forecast permit revenues for FY 2007 through FY 2009 on the basis of the level of the S&P 500 (lagged) as forecast by Global Insight. Table 2 shows the forecast revenues based on the model. General fund revenue from investment licenses and permits is expected to grow by 2.08% to $5.7 million in FY 2007, by 1.86% to $5.8 million in FY 2008, and by 4.56% to $6.071 million in FY 2009.

Table 2
Forecast Investment Permit Revenue Collections
($ millions)

Fiscal Year	S&P 500 Average (Prior Year)	Forecast Collections
F 2007	1254.9	$5.700
F 2008	1297.7	$5.806
F 2009	1336.9	$6.071

Data Sources

General fund revenue from investment licenses and permits is from SABHRS. Past employment is from the Bureau of Labor Statistics of the U.S. Department of Labor. Employment and equity market forecasts are from Global Insight's July 2006 national forecast. Data on the New York Stock Exchange is from the *2006 Statistical Abstract of the United States*, Census Bureau, U.S. Department of Commerce.

PUBLIC CONTRACTORS' GROSS RECEIPTS TAX

Revenue Description

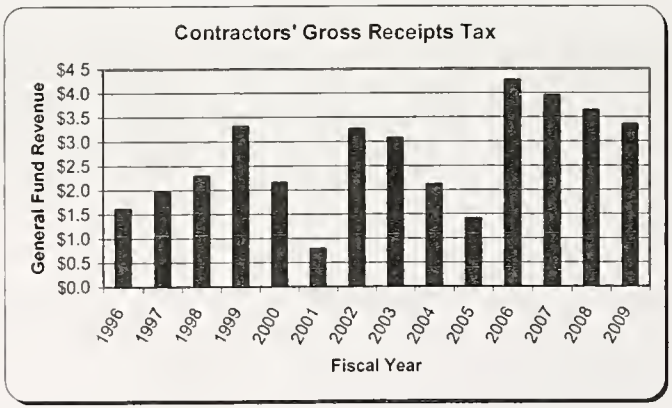
Section 15-50-205, MCA, provides for a 1% tax on the gross receipts contractors receive for construction work within the state for federal, state, or local governments. Contractors may use the amount of gross receipts tax paid as an offset, or credit, against either their corporation license tax or their individual income tax. In addition, any personal property taxes paid on property located within Montana and used in the contractor's business may be used to obtain a refund of contractors' gross receipts taxes paid. Any tax not credited or refunded is general fund revenue.

Historical and Projected Revenues

Table 1 shows actual general fund revenue from the contractors' gross receipts tax for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Contractors' Gross Receipts Tax - General Fund
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	1.621	35.98%
A 1997	1.964	21.12%
A 1998	2.291	16.66%
A 1999	3.320	44.94%
A 2000	2.162	-34.88%
A 2001	0.792	-63.39%
A 2002	3.267	312.70%
A 2003	3.082	-5.66%
A 2004	2.120	-31.21%
A 2005	1.411	-33.45%
A 2006	4.275	202.99%
F 2007	**3.956**	-7.46%
F 2008	**3.647**	-7.81%
F 2009	**3.354**	-8.04%



Variation in revenue is largely the result of refund processing fluctuations. The general fund revenue decline of 35% in FY 2000 is largely due to processing refunds that normally would have been processed in FY 1999, but were processed in FY 2000. This increased revenue collections in FY 1999 by $400,000 and decreased collections in FY 2000 by $400,000. Likewise, a large number of refunds attributable to FY 2002 and FY 2003 were not processed during those years. In FY 2004 and FY 2005, the backlog was processed, again decreasing general fund revenue in those years. In FY 2006, no significant backlog existed to be processed; consequently, general fund revenue

increased by 203%. In FY 2007, the Department of Revenue (DOR) expects the entire FY 2006 backlog to be processed. DOR also expects approximately the same annual backlog amounts for FY 2007 through FY 2009, and that these amounts will be fully processed in the year following.

General fund revenue is forecast to decrease for FY 2007 through FY 2009 due to decreasing Montana Department of Transportation (MDT) contracts and SB 323 (2005 Session) credit carry forwards. First, the MDT contracts are estimated to decrease through the next three fiscal years. Second, SB 323 that allows public contractors to carry forward individual income or corporate license tax credits for up to five years is estimated to reduce general revenue by $350,000 per year beginning in FY 2007.

Forecast Methodology and Projection Calculation

There are three steps in calculating public contractors' gross receipts tax revenue: 1) forecast gross tax receipts; 2) forecast total tax credits and refunds; and 3) subtract credits and refunds from gross receipts to obtain the general fund revenue.

Step 1: Forecast Gross Tax Receipts

Public contractors' gross tax receipt collections depend on the volume of public contracts. These contracts stem from allocations of federal highway funds, forest service construction contracts, state and federal building programs, etc.

Table 2 shows actual and projected contractors' gross receipt payments for FY 1996 through FY 2009 from MDT and other contractors. MDT projects its payments to be $3.441 million in FY 2007, $2.918 million in FY 2008, and $2.422 million in FY 2009. Other contractor payments historically fluctuate; therefore, other contractor payments for FY 2007 through FY 2009 are estimated at the average level observed from FY 2005 through FY 2006, which is $3.258 million.

Table 2
Gross Receipts Payments
FY 1996 - FY 2009

FY	Gross Receipts		Department of Transportation		Other Contractor
A 1996	$4,190,369	=	$1,709,662	+	$2,480,707
A 1997	$4,475,513	=	$1,697,389	+	$2,778,124
A 1998	$4,967,149	=	$1,733,207	+	$3,233,942
A 1999	$5,901,753	=	$2,006,456	+	$3,895,297
A 2000	$5,516,069	=	$2,348,755	+	$3,167,314
A 2001	$4,502,749	=	$2,005,080	+	$2,497,669
A 2002	$5,054,973	=	$2,177,490	+	$2,877,483
A 2003	$5,706,437	=	$2,376,404	+	$3,330,033
A 2004	$6,099,524	=	$2,539,021	+	$3,040,063
A 2005	$5,579,071	=	$2,351,284	+	$3,227,787
A 2006	$6,160,311	=	$2,872,062	+	$3,288,249
F 2007	**$6,699,473**	=	**$3,441,454**	+	**$3,258,018**
F 2008	**$6,176,173**	=	**$2,918,155**	+	**$3,258,018**
F 2009	**$5,679,866**	=	**$2,421,848**	+	**$3,258,018**

Step 2: Forecast Total Tax Credits and Refunds

Companies are allowed individual income and corporation license tax credits to offset the contractors' gross receipts tax paid. Public contractors may or may not be able to utilize the contractors' gross receipts tax as a credit offset against individual income taxes, depending on their profit and loss situation each year.

Companies may also receive personal property tax and overpayment refunds for contractors' gross receipts tax paid. The bulk of property tax refunds are derived from class 8 business equipment property and automobiles. The amount of property tax refunds in a year is influenced by changes in the amount of property used in the state and by property tax rates. Beginning in FY 2002, property tax refunds decreased as a result of SB 200 (1999 Session), HB 540 (1999 Session), and HB 4 (2000 Special Session). SB 200 reduced the taxable valuation rate applied to personal property by one-half, from 6% to 3%, beginning January 1, 2000. HB 540 and HB 4 eliminated the 1.4% ad valorem tax and the 1.5% "new car" sales tax, beginning January 1, 2001, and replaced these two ad valorem taxes with a three-tier flat fee. However, with processing fluctuations between years, it is impossible to detect any trends and the impact of legislation reducing the business equipment and vehicle property taxes. Table 3 shows actual credits and refunds processed from FY 1996 through FY 2006 and forecast amounts for FY 2007 through FY 2009.

Table 3
Credits and Refunds (millions)

	Fiscal Year	Gross Receipts	Credits		Refunds		Total Cred./Ref.	% of Gross Receipts Credits	Refunds
A	1996	$4.190	$1.153	+	$1.415	=	$2.569	28%	34%
A	1997	$4.476	$0.980	+	$1.532	=	$2.512	22%	34%
A	1998	$4.967	$0.624	+	$2.053	=	$2.677	13%	41%
A	1999	$5.902	$1.013	+	$1.569	=	$2.582	17%	27%
A	2000	$5.516	$1.518	+	$1.927	=	$3.445	28%	35%
A	2001	$4.503	$1.840	+	$1.871	=	$3.711	41%	42%
A	2002	$5.055	$1.710	+	$0.523	=	$2.233	34%	10%
A	2003	$5.706	$0.828	+	$1.736	=	$2.564	15%	30%
A	2004	$6.100	$2.377	+	$1.602	=	$3.979	39%	26%
A	2005	$5.579	$2.300	+	$2.045	=	$4.346	41%	37%
A	2006	$6.160	$0.518	+	$1.365	=	$1.883	8%	22%
	Average FY 1996 - FY 2006								**28%**
F	**2007**	$6.699	**$0.868**	**+**	**$1.876**	**=**	**$2.744**	**13%**	**28%**
F	**2008**	$6.176	**$0.800**	**+**	**$1.729**	**=**	**$2.530**	**13%**	**28%**
F	**2009**	$5.680	**$0.736**	**+**	**$1.590**	**=**	**$2.326**	**13%**	**28%**

DOR expects credits to be approximately $868,000 in FY 2007. This number represents the sum of the FY 2006 credits plus $350,000 to adjust for the impacts of SB 323. Credits make up approximately 13% of total receipts in FY 2007. Credits are forecast to continue to equal 13% of total receipts for FY 2008 and FY 2009. Refunds

make up an average of 28% of total receipts for FY 1996 through FY 2006. This percentage assumes that at fiscal year end there will always be some refunds to process, and that the accounting procedures will not change to accrue these refunds. This percentage is used to forecast refunds for FY 2007 through 2009. Total refunds and credits are forecast to be $2.744 million in FY 2007, $2.530 million in FY 2008, and $2.326 million in FY 2009.

Step 3: Calculate General Fund Revenue

General fund revenue equals gross tax collections minus tax credits and refunds. As shown in Table 4, public contractors' gross receipts tax general fund revenue is forecast to be $3.956 million in FY 2007, $3.647 million in FY 2008, and $3.354 million in FY 2009.

Table 4
Public Contractors' Gross Receipts Tax
General Fund Revenue

Fiscal Year	Gross Tax Collections	-	Total Credits/Refunds	=	**General Fund Revenue**
F 2007	$6.699	-	$2.744	=	**$3.956**
F 2008	$6.176	-	$2.530	=	**$3.647**
F 2009	$5.680	-	$2.326	=	**$3.354**

Data Sources

Gross tax receipts, tax credits, property refunds, and net general fund collections by month, were obtained from DOR and some information is available on SBAS Report 63 receipts tax collections from their agency for FY 2007 through FY 2009.

DRIVER'S LICENSE FEES

Revenue Description

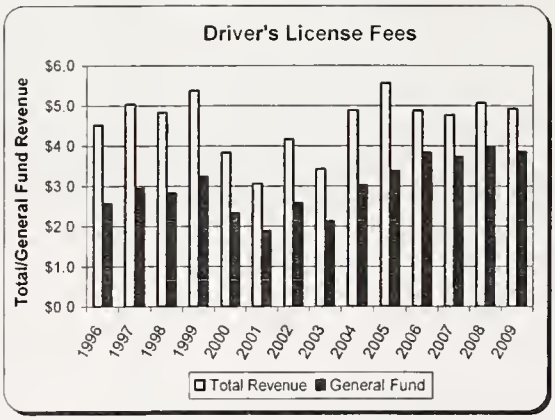
Fees for driver's licenses, commercial driver's licenses, and motorcycle endorsements are set in 61-5-111, MCA. The fee for replacing a lost or destroyed license is set in 61-5-114, MCA. The distribution of revenue from driver's license fees is set in 61-5-121, MCA. Fees for original and replacement licenses are allocated to the state general fund, the traffic education account, and the highway patrol retirement fund. Commercial driver's license fees are allocated to the general fund. Motorcycle endorsement fees are allocated to the state general fund and the motorcycle safety account. Counties retain a small percentage of fees they collect.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from driver's license fees for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Driver's License Fees
($ millions)

Fiscal Year	Total Revenue	Percent Change	General Fund	Percent Change
A 1996	4.525	38.8%	2.574	17.8%
A 1997	5.034	11.2%	2.954	14.7%
A 1998	4.824	-4.2%	2.828	-4.3%
A 1999	5.372	11.4%	3.234	14.4%
A 2000	3.836	-28.6%	2.333	-27.8%
A 2001	3.063	-20.2%	1.896	-18.8%
A 2002	4.173	36.3%	2.580	36.1%
A 2003	3.421	-18.0%	2.119	-17.8%
A 2004	4.895	43.1%	3.021	42.6%
A 2005	5.563	13.6%	3.373	11.6%
A 2006	4.872	-12.4%	3.828	13.5%
F 2007	**4.770**	**-2.1%**	**3.733**	**-2.5%**
F 2008	**5.079**	**6.5%**	**3.975**	**6.5%**
F 2009	**4.926**	**-3.0%**	**3.855**	**-3.0%**



Total collections and the general fund share have been affected by significant legislative changes. Beginning in FY 1996, portions of motorcycle endorsements and duplicate license fees were allocated to the general fund.

In October 1995, the state began a process of converting from four-year licenses to eight-year licenses. Between October 1995 and October 1999, half of licenses issued were four-year licenses and half were eight-year licenses, with the fee for an eight-year

license being twice the fee for a four-year license. During this period, the number of licenses was the same as it would have been with no change in the law; new drivers and new residents got new licenses and about one-fourth of existing drivers renewed their licenses each year. However, the average revenue per license was higher because half of renewals were paying the higher eight-year license fee. Beginning in October 1999, all licenses for drivers between 21 and 68 years old are eight-year licenses. Between October 1999 and October 2003, drivers who received four-year licenses between October 1995 and October 1999 were required to renew. On average, renewals were half of what they would have been without the change, but the fee for each renewal license was higher.

This transition process resulted in temporarily higher revenue in FY 1996 through FY 1999. The transition also produced a pattern of annual fluctuations in revenue starting in FY 1996. Revenue was significantly higher in FY 1997 and FY 1999 than in FY 1996 and FY 1998. Although four-year and eight-year licenses were issued on alternate days, it appears that the proportion of four-year and eight-year licenses varied between years, probably because holidays and the less busy days of the week fell on four-year license days more often in FY 1997 and FY 1999 than in the other two years. In FY 2001 and FY 2003, when four-year licenses issued in FY 1997 and FY 1999 were being renewed, revenue was significantly lower than in FY 2000 and FY 2002, when four-year licenses issued in FY 1996 and FY 1998 were being renewed.

Beginning July 1, 2004, fees for noncommercial driver's licenses were raised from $4 to $5 per year. A renewal notice fee of $0.50 was imposed beginning October 1, 2004. These changes increased revenue in FY 2004 and subsequent years.

The 2005 Legislature passed three bills affecting driver's license revenues. SB 1 provides for an indication on the driver license that the license holder has executed a living will declaration. This change was expected to increase the volume of duplicate driver license fees as some license holders opted to have the living will designation placed on their driver license prior to their license renewal date. HB 102 (2005 Session) requires a general fund appropriation to pay the state's contribution to the Montana highway patrol retirement pension fund. Prior to HB 102, portions of driver's license and duplicate driver's license revenues were earmarked for the highway patrol pension fund. HB 192 (2005 Session) changed commercial licenses from an eight-year license to a five-year license and combined the commercial fee and the basic driver's license, but did not change the annual amount for a commercial driver's license. However, because the period covered by the commercial driver's license is reduced, revenue from this source is also reduced (compared to what it would have been before enactment of HB 192) for a period of five years.

Forecast Methodology and Projection Calculation

Base driver's license revenue is estimated from detailed information on state population by age. Commercial driver's license, motorcycle endorsement, and replacement license revenue have been roughly proportional to base driver's license revenue. They are forecast to continue to be collected in these proportions.

Table 2 shows revenue from each type of fee and total revenue from FY 2000 through FY 2006.

Table 2
Revenue by Type of License
FY 2000 through FY 2006
($ millions)

Fiscal Year	Basic Driver's License	Commercial Licenses	Motorcycle Endorsement	Duplicate License	Total Revenue
2000	$3.320	$0.351	$0.038	$0.126	$3.836
2001	$2.573	$0.340	$0.028	$0.122	$3.063
2002	$3.470	$0.517	$0.042	$0.144	$4.173
2003	$2.852	$0.366	$0.031	$0.173	$3.421
2004	$4.130	$0.421	$0.040	$0.304	$4.895
2005	$4.757	$0.411	$0.049	$0.345	$5.563
2006	$4.057	$0.429	$0.035	$0.351	$4.872

Table 3 shows the fees drivers of different ages pay for their licenses. The fee for a basic driver's license is $5.00 per year. A motorcycle endorsement is an additional $0.50 per year. Commercial licenses are $8.50 per year for an intrastate license and $10.00 per year for an interstate license. With each license, there is an additional fee of $0.50 for mailing a renewal notice before it expires.

Table 3
Driver's License Fees

Age/Type	Term	Fee
Base License		
Learner's Permit	6 months	$5.50
Under 21	to 21st birthday	$5/yr + $0.50
Age 21 - 67	8 years	$40.50
Age 68 - 74	to 75th birthday	$5/yr + $0.50
Age 75 and Over	4 years	$20.50
Additional Fees		
Motorcycle		$0.50/yr
Commercial Driver's License (includes base license)		
Intrastate Only	5 years	$8.50/yr +$0.50
Interstate	5 years	$10.00/yr + $0.50

Drivers of different ages are licensed for different numbers of years and therefore pay different fees. Learner's permits expire after six months. Drivers under 21 are issued a license that expires on their twenty-first birthday. Drivers between 21 and 67 years of age are issued eight-

year licenses. Drivers between 68 and 75 years of age are issued a license that expires on their seventy-fifth birthday. Drivers over 75 years of age are issued four-year licenses.

Table 4 shows the population in the age categories who will be likely obtaining or renewing driver's licenses. The population data is from the Census data and the forecast populations are from the 2005 forecast by the Census Bureau for Montana.

Table 4
Population at Ages to Obtain or Renew Driver's Licenses
FY 2000 through FY 2009

Fiscal Year	Age 15	Age 16	Ages 21, 29, 37, 45, 53, and 61	Age 69	Ages 75, 79, and 83
A 2000	14,642	14,568	72,025	6,445	13,061
A 2001	14,004	14,302	72,398	6,264	13,387
A 2002	13,714	14,141	71,691	6,268	13,458
A 2003	13,559	13,758	73,327	6,363	13,200
A 2004	13,084	13,200	73,949	6,553	13,586
A 2005	13,346	12,895	74,757	6,679	13,837
A 2006	12,910	13,151	75,594	6,819	13,663
F 2007	**12,576**	**12,721**	**76,440**	**6,909**	**13,778**
F 2008	**12,133**	**12,382**	**78,278**	**7,149**	**13,673**
F 2009	**11,856**	**11,936**	**77,821**	**7,410**	**13,840**

Table 5 shows the populations eligible for a license in Table 4 multiplied by the license fees in Table 3.

Table 5
Population at Ages to Obtain or Renew Driver's Licenses
Multiplied by Average Fee

Fiscal Year	Learner's Permit	5 Year License	8 Year License	6 Year License	4 Year License	Total
A 2000	$58,568	$291,360	$2,304,800	$154,680	$208,976	$3,018,384
A 2001	$56,016	$286,040	$2,316,736	$150,336	$214,192	$3,023,320
A 2002	$54,856	$282,820	$2,294,112	$150,432	$215,328	$2,997,548
A 2003	$54,236	$275,160	$2,346,464	$152,712	$211,200	$3,039,772
A 2004	$70,327	$334,950	$2,985,691	$199,047	$276,815	$3,866,830
A 2005	$73,403	$328,823	$3,027,659	$203,710	$283,659	$3,917,252
A 2006	$71,005	$335,351	$3,061,557	$207,980	$280,092	$3,955,984
F 2007	**$69,168**	**$324,386**	**$3,095,820**	**$210,725**	**$282,449**	**$3,982,547**
F 2008	**$66,732**	**$315,741**	**$3,170,259**	**$218,045**	**$280,297**	**$4,051,073**
F 2009	**$65,208**	**$304,368**	**$3,151,751**	**$226,005**	**$283,720**	**$4,031,052**

Table 6 compares the totals for FY 2000 through FY 2006 from Table 5 to actual collections in those years. The second column of the table is population times fees, the third column shows actual revenue, and the fourth column has the ratio of actual revenue to population times fees for FY 2000 through FY 2006. This ratio is higher than 100% in even numbered fiscal years and lower than 100% in odd numbered fiscal years, reflecting the renewal of the varying number of eight-year licenses issued between FY 1996 and FY 1999.

The lower part of the table shows the average ratio for FY 2001 through FY 2006. This ratio is higher than 100% because new residents, who must get a new license regardless of their age, slightly outnumber non-drivers on average.

Table 6
Population Times Fees v. Actual Revenue

Fiscal Year	Population x Fees	Revenue	Revenue / Population x Fees
A 2000	$3,018,384	$3,319,750	109.98%
A 2001	$3,023,320	$2,572,695	85.09%
A 2002	$2,997,548	$3,469,811	115.75%
A 2003	$3,039,772	$2,851,971	93.82%
A 2004	$3,866,830	$4,129,977	106.81%
A 2005	$3,917,252	$4,757,330	121.45%
A 2006	$3,955,984	$4,057,231	102.56%
Average Ratio 2000 - 2006			105.07%

Table 7 shows the forecast of revenue from base driver's license fees. The second column shows the total of population needing a new license multiplied by fees from Table 5. The third column shows forecast ratios of revenue to population times fees for FY 2007 through FY 2009.

Table 7
Population Times Fees and Forecast Basic License Revenue
FY 2007 through FY 2009

Fiscal Year	Population x Fees	Revenue / Population x Fees	Revenue
F 2007	$3,982,547	100.97%	$4,021,251
F 2008	$4,051,073	105.69%	$4,281,716
F 2009	$4,031,052	103.02%	$4,152,757

As can be seen from the table, the annual swings in revenue from basic license fees are expected to continue to some degree. The right-hand column shows the forecast of revenue from basic license fees, which is the product of population times fees in the second column and the ratio in the third column.

Fees for commercial driver's licenses, motorcycle endorsements, and duplicate licenses have maintained fairly stable proportions to base license fees. Table 8 shows the ratios of revenue from these fees to revenue from base licenses for FY 2000 through FY 2006 and the average over this period. Future collections are forecast to equal the average percentages of base license fees.

Table 8
Ratios of Commercial, Motorcycle, and Duplicate Fees to Base License Fees

Fiscal Year	Commercial Licenses	Motorcycle Endorsement	Duplicate License
A 2000	10.59%	1.16%	3.81%
A 2001	13.23%	1.08%	4.73%
A 2002	14.91%	1.20%	4.15%
A 2003	12.83%	1.07%	6.05%
A 2004	10.19%	0.98%	7.36%
A 2005	8.65%	1.03%	7.26%
A 2006	10.58%	0.86%	8.65%
Average	**11.57%**	**1.05%**	**6.00%**

Table 9 shows the forecasts of collections from each fee and the total.

Table 9
Forecast Driver's License Fees
($ millions)

Fiscal Year	Basic Driver's License	Commercial Licenses	Motorcycle Endorsement	Duplicate License	Total
F 2007	$4.021	$0.465	$0.042	$0.241	$4.770
F 2008	$4.282	$0.495	$0.045	$0.257	$5.079
F 2009	$4.153	$0.480	$0.044	$0.249	$4.926

When driver's license fees are collected by a county, the county retains 2.5% of base license fees and commercial driver's license fees, 3.34% of motorcycle endorsement fees, and 3.75% of duplicate license fees. This revenue is not received by the state, and is not included in the estimates in Table 11. However, the allocation of driver's license fees is based on the total amount collected, not just the part received by the state. The traffic education account is allocated 20.7% of basic license fees, 16.94% of commercial driver's license fees, and 8.75% of duplicate license fees. The motorcycle safety account receives 63.46% of motorcycle endorsement fees. The remainder is allocated to the general fund.

Table 10 shows the percentage of revenue received by the state allocated to each fund in FY 2006. These percentages are not expected to change.

Table 10
Driver's License Fees Allocation Percentages

	Basic Driver's License	Commercial Licenses	Motorcycle Endorsement	Duplicate License
General Fund	77.48%	82.54%	34.93%	90.77%
Traffic & Safety Education	22.52%	17.46%	0.00%	9.23%
Motorcycle Safety Training	0.00%	0.00%	65.07%	0.00%

Table 11 shows forecast driver's license fees allocated to the three funds - general fund, traffic and safety education, and motorcycle safety training - for FY 2007 through FY 2009.

Table 11
Driver's License Fee Allocation
FY 2007 through FY 2009
($ milllions)

Fiscal Year	General Fund	Traffic & Safety Education	Motorcycle Safety Training	Total
F 2007	$3.733	$1.009	$0.028	$4.770
F 2008	$3.975	$1.075	$0.029	$5.079
F 2009	$3.855	$1.042	$0.028	$4.926

Data Sources

Past collections are from the state accounting system. Estimates of Montana population by age are from the Census Bureau of the U.S. Department of Commerce.

RAIL CAR TAX

Revenue Description

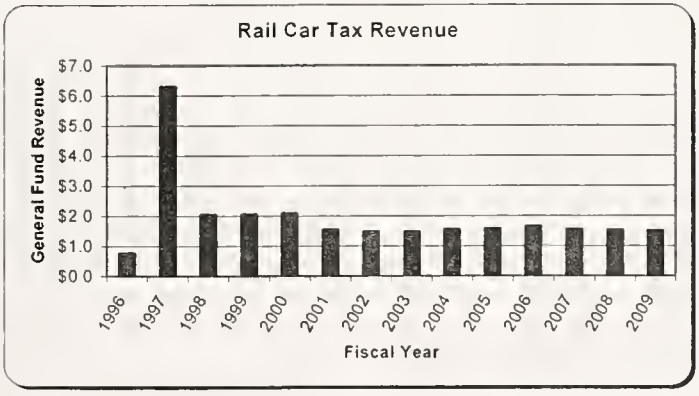
Section 15-23-101, MCA, provides for the central assessment of rail car companies' operating properties. The rail car tax is assessed based on the taxable value of the rolling stock of freight line companies. Section 15-23-214, MCA, states that the tax shall be computed by multiplying the taxable value of the property by the average statewide mill levy for commercial and industrial property. Section 15-23-211, MCA, defines the average statewide mill levy. The general fund receives 100% of the rail car tax revenue.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from the rail car tax for FY 1996 though FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Rail Car Tax Revenue
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	0.780	12.74%
A 1997	6.309	708.67%
A 1998	2.054	(67.44%)
A 1999	2.074	0.96%
A 2000	2.101	1.28%
A 2001	1.556	(25.94%)
A 2002	1.490	(4.24%)
A 2003	1.484	(0.37%)
A 2004	1.568	5.64%
A 2005	1.585	1.09%
F 2006	1.667	5.20%
F 2007	**1.572**	**(5.73%)**
F 2008	**1.542**	**(1.91%)**
F 2009	**1.520**	**(1.44%)**



The large increase in general fund collections in FY 1997 stems from a settlement agreement reached with a group of rail car companies for back taxes. HB 128, HB 174, SB 111, and SB 200, passed during the 1999 Legislative Session, decreased the class 12 tax rate, causing a decline in FY 2001 revenue. The forecast decline of approximately 5.7% for FY 2007 is due to a 4% decline in the Montana market value of rail car companies and to class 4 commercial property values increasing significantly above the property system market value established on January 1, 2002. The FY 2008 and FY 2009 revenue decline of 1.91% and 1.44% respectively is less than the FY 2007

decline because it is estimated that the market value will remain the same and that the growth in class 4 commercial property will moderate.

Forecast Methodology and Projection Calculation

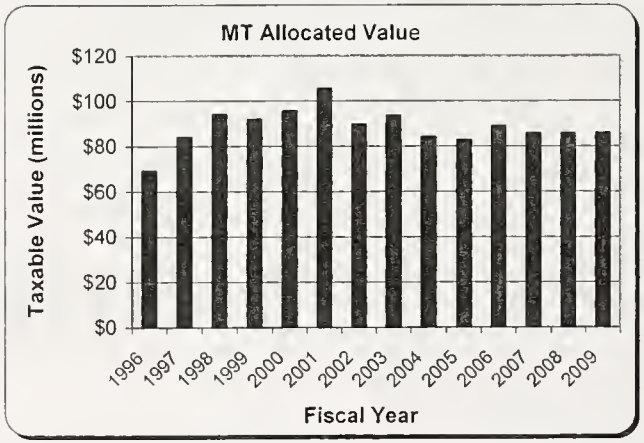
The primary steps in estimating rail car tax revenue are as follows: 1) estimate the allocated market value of rail car companies operating in Montana; 2) calculate and apply the class 12 taxable valuation rate; 3) calculate and apply the average statewide mill levy for commercial and industrial property; and 4) calculate general fund revenue.

Step 1: Estimate Allocated Market Value of Rail Car Companies

As Table 2 shows, the allocated market value of Montana rail car companies has fluctuated in recent years. This forecast projects the allocated market values to remain at the FY 2007 level of $85.863 million for FY 2008 and FY 2009.

Table 2
Actual and Projected Allocated Market Value
($ millions)

Fiscal Year	MT Allocated Value	Percent Change
A 1996	$69.296	0.31%
A 1997	$84.190	21.49%
A 1998	$94.220	11.91%
A 1999	$91.985	-2.37%
A 2000	$95.627	3.96%
A 2001	$105.616	10.45%
A 2002	$89.657	-15.11%
A 2003	$93.550	4.34%
A 2004	$84.020	-10.19%
A 2005	$82.646	-1.64%
A 2006	$89.056	7.76%
A 2007	$85.863	-3.59%
F 2008	**$85.863**	**0.00%**
F 2009	**$85.863**	**0.00%**



Step 2: Calculate and Apply Class 12 Taxable Valuation Rate

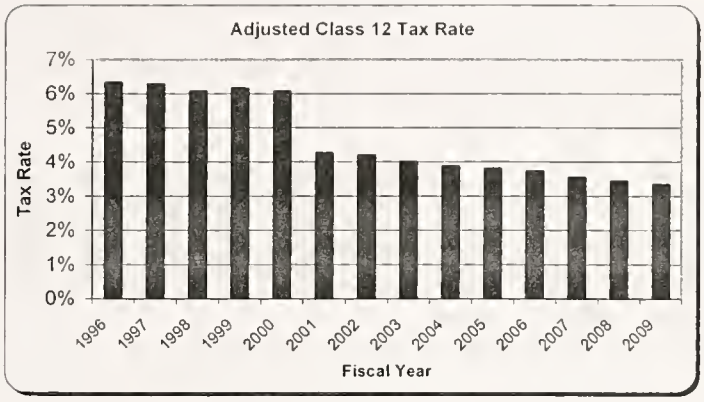
The class 12 taxable valuation rate, which applies to railroad and airline property, is a composite rate reflective of the weighted average tax rate applied to all other commercial and industrial property in the state. Class 4 commercial property is appraised every six years, rather than annually as is other commercial and industrial property. Therefore, the class 12 tax rate includes an adjustment to class 4 commercial

property based on the ratio of sales price to market value of class 4 commercial property.

The class 12 taxable valuation rate has significantly decreased since FY 2000 due to the impacts of HB 128, HB 174, and SB 200 on taxable valuations of classes 7, 8, and 9 properties. Table 3 shows actual class 12 tax rates for FY 1996 through FY 2007 and forecast rates for FY 2008 and FY 2009.

Table 3
Class 12 Tax Rate
FY 1996 through FY 2009

Fiscal Year	Class 12 Tax Rate	Percent Change
A 1996	6.34%	
A 1997	6.29%	-0.79%
A 1998	6.08%	-3.34%
A 1999	6.17%	1.48%
A 2000	6.08%	-1.46%
A 2001	4.27%	-29.77%
A 2002	4.21%	-1.41%
A 2003	4.02%	-4.51%
A 2004	3.88%	-3.48%
A 2005	3.81%	-1.80%
A 2006	3.74%	-1.95%
A 2007	3.55%	-6.82%
F 2008	**3.44%**	**-3.09%**
F 2009	**3.35%**	**-2.63%**



The class 12 tax rate declined by 6.82% in FY 2007 primarily due to three factors. First, the ratio of the property system's market value of commercial and industrial property to actual market value is wider because prices for class 4 commercial property have increased rapidly since the January 1, 2003 class 4 reappraisal. Second, there is an annual decrease in the class 4 tax rate as the January 1, 2003 values are phased-in over six years. Third, a number of properties were reclassified under a lower tax rate. The economy is expected to slow, lessening the growth rate of the disparity between the property system's market value and the actual market price. Additionally, the reclassification of certain properties under a lower tax rate was a one-time impact. Therefore, the decline of the class 12 valuation rate is expected to be -3.09% in FY 2008 and -2.63% in FY 2009, as determined using respective commercial property valuation estimates.

Step 3: Calculate Average Statewide Mill Levy for Commercial and Industrial Property

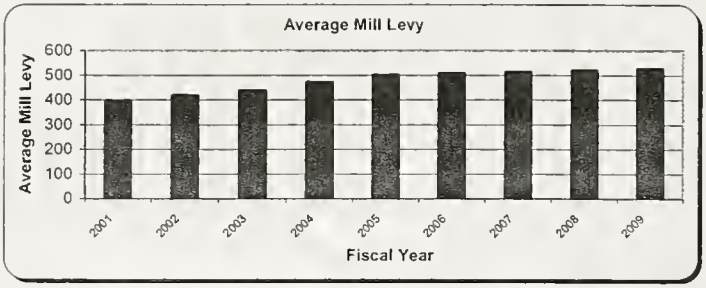
The mill levy applied to class 12 property is the average statewide mill levy for commercial and industrial property. Section 15-23-211, MCA, provides a definition of the "average mill levy." This definition is used in calculating the average statewide mill levy for commercial and industrial property.

As shown in Table 4, average statewide mill levies for commercial and industrial property have increased since FY 2001. Table 4 shows the actual average statewide commercial and industrial property mill levies for FY 2001 through FY 2006 and forecast mill levies for FY 2008 through FY 2009.

The average statewide mill levy for FY 2008 and FY 2009 is estimated to grow at 1.22%, which is the average annual growth rate of the average statewide commercial and industrial mill levy for FY 2006 and FY 2007. The increases in property values in calendar years 2005 and 2006 slowed mill levy growth. It is anticipated that this mill levy trend will continue through FY 2009.

Table 4
Average Statewide Mill Levy - Commercial and Industrial Property
FY 2001 through FY 2009

Fiscal Year	Average Mill Levy	Percent Change
A 2001	399.06	9.77%
A 2002	421.03	5.51%
A 2003	440.21	4.56%
A 2004	474.43	7.77%
A 2005	503.39	6.10%
A 2006	509.51	1.22%
A 2007	515.71	1.22%
F 2008	**522.00**	**1.22%**
F 2009	**528.37**	**1.22%**



Step 4: Calculate General Fund Revenue

As shown in Table 5, rail car tax revenue is determined by multiplying Montana's allocated rail car market value by the class 12 tax rate, then multiplying by the average statewide commercial and industrial property mill levy. General fund revenue is estimated at $1.572 million in FY 2007, $1.542 million in FY 2008, and $1.520 million in FY 2009.

Table 5
Calculation of Rail Car Tax General Fund Revenue
FY 2007 through FY 2009

Description	FY 2007	FY 2008	FY 2009
Total Montana Allocated Value	$85,863,000	$85,863,000	$85,863,000
Multiply by Class 12 Tax Rate	3.55%	3.44%	3.35%
Taxable Value	$3,048,137	$2,953,870	$2,876,244
Multiply by Mill Levy	0.51570	0.52200	0.52837
General Fund Revenue	**$1,571,924**	**$1,541,925**	**$1,519,721**

Data Sources

The general fund revenue is from SBAS Report 635 and SABHRS Report MTGL0109. DOR provided the average statewide mill levies for commercial and industrial property, and Montana allocated rail car fleet market values.

ESTATE TAX

Revenue Description

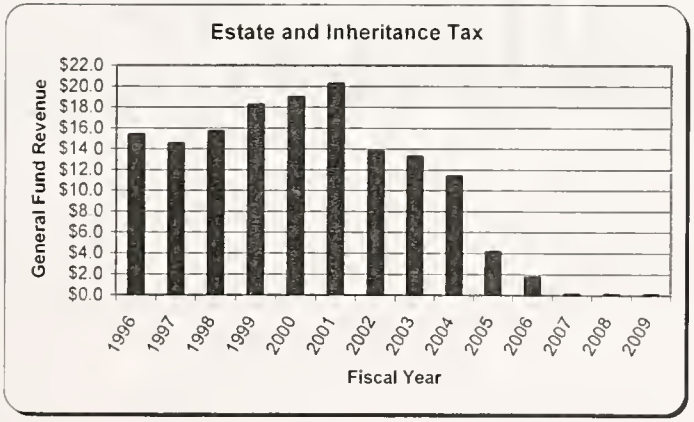
Federal law provides a credit for state inheritance or estate taxes. The Montana estate tax is equal to the maximum credit allowed under the federal estate tax credit. The state inheritance tax was repealed by the passage of Legislative Referendum 116, and does not apply for deaths occurring on or after January 1, 2001. Likewise, the federal deduction on the estate tax expired on January 1, 2005. In 2011, expiration of the federal elimination of the estate tax sunsets and must be renewed or the federal estate tax will be reactivated. Although Montana voters have repealed the inheritance tax and federal law has eliminated the estate tax, the Department of Revenue still collects inheritance and estate tax revenue from unsettled estates of deaths before both taxes were eliminated. All estate and inheritance tax revenue is deposited in the general fund.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from estate and inheritance taxes for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Estate and Inheritance Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	15.404	-58.00%
A 1997	14.562	-5.46%
A 1998	15.727	7.99%
A 1999	18.302	16.38%
A 2000	19.003	3.83%
A 2001	20.286	6.75%
A 2002	13.816	-31.89%
A 2003	13.306	-3.69%
A 2004	11.431	-14.09%
A 2005	4.191	-63.34%
A 2006	1.773	-57.69%
F 2007	**0.159**	**-91.02%**
F 2008	**0.148**	**-6.79%**
F 2009	**0.090**	**-39.22%**



Collections from FY 1996 through FY 2001 show a general upward trend with year-to-year variations. Collections decreased in FY 2002 through FY 2006 and are projected to continue to decrease substantially.

Forecast Methodology and Projection Calculation

The Department of Revenue estimates the total value of the 20 Montana estates owing money for deaths occurring before January 1, 2005 to be $46.5 million. Nine of the estates have arranged separate annual payment plans with the Department of Revenue that include interest-rate payments on the value of estates. The other 11 estates have yet to create a payment plan with the Department of Revenue. Of the nine estates that have created payment plans, the Department of Revenue estimates the total taxable amount of revenue owed to the state to be $248,071.

To determine the total estate tax revenue from FY 2007 through FY 2009, this forecast assumes the taxable value of the nine estates with payment plans have approximately the same value per estate as the 11 estates that have not developed payment plans. To determine total estate tax revenue, the annual payments for the nine estates are divided by the fraction 9/20. Table 2 shows total estate tax revenue for FY 2007 through FY 2009.

Table 2
Estate and Inheritance Tax Revenue
FY 2007 to FY2009

Fiscal Year	DOR Estimate	/	Fraction of Total Estates	=	**Total Revenue**
F 2007	$71,647	/	9/20	=	**$159,215**
F 2008	$66,783	/	9/20	=	**$148,406**
F 2009	$40,587	/	9/20	=	**$90,194**

Estate tax revenue is $159,215 in FY 2007, $148,406 in FY 2008, and $90,194 in FY 2009.

Data Sources

Inheritance and Estate Tax information is from the SABHRS MTGL0109 Reports. The Department of Revenue provided information on the value of outstanding estates.

GENERAL FUND OTHER REVENUE

Revenue Description

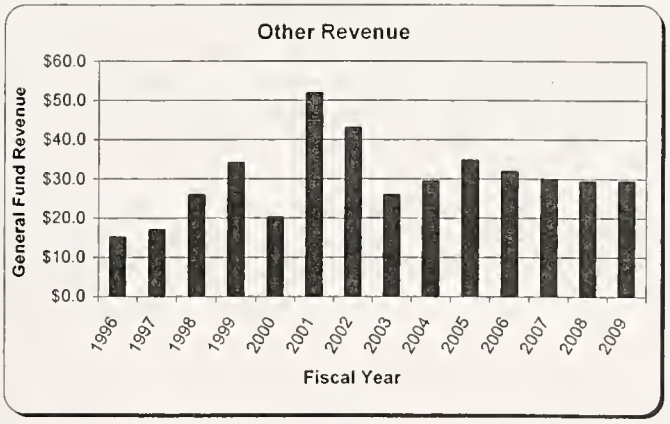
Other revenue represents the sources of general fund revenue that do not have an individual line item in the revenue estimating resolution. Items included in other revenue have general fund revenue of around $2 million or less. Other revenue also includes one-time revenue that is often greater than $2 million.

Historical and Projected Revenue

Table 1 shows actual general fund other revenue from FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
General Fund Other Revenue
($ millions)

Fiscal Year	Other Revenue	Percent Change
A 1996	$15.131	
A 1997	$17.089	12.94%
A 1998	$25.913	51.64%
A 1999	$34.124	31.69%
A 2000	$20.195	-40.82%
A 2001	$51.836	156.68%
A 2002	$43.049	-16.95%
A 2003	$25.895	-39.85%
A 2004	$29.432	13.66%
A 2005	$34.702	17.91%
A 2006	$31.867	-8.17%
F 2007	**$29.899**	**-6.17%**
F 2008	**$29.259**	**-2.14%**
F 2009	**$29.356**	**0.33%**



Other revenue varies largely across years, primarily because it includes reimbursements for the costs of fighting forest fires. Reimbursements were significantly higher than normal in FY 2001 and FY 2002, causing the spike in general fund revenue.

One-time revenue also causes large variations. Revenue increased $3.5 million in FY 2004, primarily because of settlements with the State Auditor's Office. Other revenue increased $5.3 million in FY 2005 because of large fire reimbursements and a $3.7 million one-time transfer. Revenue decreased $3.235 million in FY 2006 because one-time transfers decreased to $0.957 million and fire reimbursement was less than in FY 2005. Revenue is forecast to decrease to $29.899 million FY 2007, to $29.259 million in FY 2008, and $29.356 million in FY 2009.

Forecast Methodology and Projection Calculation

The forecast for general fund revenue from other revenue sources is done in five steps.

1. Project general fund revenue from one-time sources of revenue.
2. Project general fund revenue from individual revenue sources that are consistent across years.
3. Project general fund revenue from residual revenue sources that do not fall into the categories 1 and 2.
4. Project general fund revenue from the bentonite production tax.
5. Sum the four projections to forecast total general fund other revenue.

The first step in examining each item is to account for one-time events and changes in the law.

One-Time Revenue

One-time revenue is allocated to the general fund from sources that do not consistently occur. One-time revenue sources can include non-budgeted transfers, large settlements, non-fixed asset residual equity, and appreciation of investment. Table 2 shows actual and projected general fund revenue from one-time revenue sources for FY 2001 through FY 2009. Revenue was exceptionally high in FY 2003 and FY 2005 due to legislation that had one-time impacts. One-time revenue is projected to continue at $0.700 million from FY 2007 through FY 2009.

Table 2
One-Time Revenue
($ millions)

Fiscal Year	Total Collections	% Change
A 2001	$ 0.478	
A 2002	$ 0.564	17.83%
A 2003	$ 2.300	308.11%
A 2004	$ 0.917	-60.13%
A 2005	$ 4.634	405.36%
A 2006	$ 0.957	-79.34%
F 2007	**$ 0.700**	**-26.86%**
F 2008	**$ 0.700**	**0.00%**
F 2009	**$ 0.700**	**0.00%**

Large Individual Sources of Revenue

Revenue is projected for individual sources that consistently allocate revenue to the general fund. Collections are projected by examining historical deposits to determine whether there is a trend or other pattern in receipts. Where receipts are growing steadily with population growth, the forecast was based on Global Insight's projected Montana population growth. For some items, variations in past receipts or recent law changes made a trend forecast inappropriate. In some of these cases, revenues through FY 2009 are forecast to be the same as revenues in FY 2006 or are the average of previous years. In other cases, the forecast was based on discussions with agency staff.

Table 3
Large Individual Sources of Other Revenue
($ millions)

Component of Estimate	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Fire Reimbursement	$ 0.612	$ 0.146	$ 5.540	$ 3.535	$ 0.082	$ 0.082	$ 0.082
Abandoned Property	2.373	3.183	3.179	3.310	3.011	3.011	3.011
Clerk of Court Fees	2.667	2.839	3.009	3.108	3.108	3.108	3.108
Vet's Home Transfer	-	1.055	2.893	2.653	2.750	1.739	1.636
Portfolio Transfer	2.036	2.113	2.110	2.234	2.279	2.324	2.371
Vehicle and Driving Records	1.859	1.675	2.111	2.098	2.098	2.098	2.098
SWCAP / SFCAP	1.196	2.215	2.514	1.844	1.714	2.785	2.785
HB 536 Criminal Surcharge	-	-	0.028	1.589	1.589	1.589	1.589
Single State Registration System Fees	1.071	1.067	1.100	1.304	1.043	-	-
MSU / EMC 1992 Refunding Bonds	0.838	0.838	0.833	0.829	0.696	0.694	0.697
Coal Tax Transfers	-	-	0.533	0.550	0.314	-	-
State Auditor - HB 667 Tax Credit Transfer	-	-	-	-	3.349	3.950	3.950
Taylor Grazing	-	-	-	-	0.134	0.134	0.134
Total Large Individual Sources	$ 12.653	$ 15.130	$ 23.852	$ 23.054	$ 22.166	$ 21.515	$ 21.461

Revenue sources that are consistently large or are changing in the next biennium are included in large individual revenue sources. As shown in Table 3, total revenue from large individual sources is projected to decline yearly from FY 2006 through FY 2009. The individual sources in Table 3 are discussed below.

The $3.535 million in fire reimbursement in FY 2006 was for fire costs from 2004. Fire reimbursement to the general fund is expected to be $0.082 million in FY 2007 through FY 2009. The projection is considerably lower than general fund fire reimbursement in the past because in FY 2007 through FY 2009 federal fire reimbursement will be deposited into a federal special revenue account. The remaining reimbursements are from private land owners, and the forecast is the average amount paid by this group since 1980.

The sale of abandoned property is a large source of other revenue. Abandoned property revenue is from financial accounts that have gone dormant and are forwarded to the state. The revenue from abandoned property is projected to be $3.011 million, which is the average of collections from FY 2003 through FY 2006.

Clerk of court fees were divided between the state and the counties where they were collected prior to HB 124 (2001 Session). HB 124 brought most revenue collected by clerks of courts to the state, beginning in FY 2003. General fund revenue from clerk of court fees is projected to be $3.108 million, the FY 2006 level, annually for FY 2007 through FY 2009.

The veteran's home transfer is the cigarette tax allocated to the state veteran's home in excess of appropriations. This revenue is forecast using the cigarette tax revenue projections from the Office of Budget and Program Planning (OBPP) and the executive budget appropriation recommendation for the veteran's home. The projected veteran's home transfer is $2.750 million in FY 2007, $1.739 million in FY 2008, and $1.636 million in FY 2009.

The portfolio transfer is revenue from a fee charged to mutual funds managed by licensed dealers. Portfolio transfer revenue deposited in the general fund is projected by the State Auditor's office to increase 2% yearly. The portfolio transfer is projected to be $2.279 million in FY 2007, $2.324 million in FY 2008, and $2.371 million in FY 2009.

Revenue from fees charged for the use of vehicle and driving records is allocated to the general fund. This revenue is consistently around $2 million annually, and is projected to remain at the FY 2006 amount of $2.098 million.

The statewide cost allocation plan (SWCAP) is agency payments for centralized services. Through FY 2004, statewide capital costs were recovered through the separate State Funds Cap Recovery (SFCAP) but, beginning in FY 2005, all costs are recovered through a single SWCAP charge. In the 2005 biennium, the Department of Administration temporarily lowered its charges to agencies for debt service for the state accounting system. Payments in FY 2007 are forecast to remain close to the FY 2006 level at $1.714. SWCAP payments are then going to increase to $2.785 million for FY 2008 and FY 2009.

The HB 536 (2005 Session) criminal surcharge is revenue from fees charged to finance state funding of court information technology. This revenue is projected to stay at the FY 2006 level of $1.589 million dollars until it terminates at the end of FY 2009.

Single state registration system fees are charged to vehicles subject to reciprocal interstate motor carrier agreements. These fees are paid at the time of registration and are currently deposited in the general fund (61-3-708, MCA), but the general fund will not receive these fees from January 1, 2007 onward. Because this program changes January 1, 2007, the FY 2007 forecast is the same as the revenue collected for the first six months of FY 2006.

The Department of Administration projects general fund revenue from MSU/EMC 1992 refunding bonds will decrease to $0.696 million in FY 2007 and to $0.694 in FY 2008. It is expected to increase slightly to $0.697 million in FY 2009.

Coal tax transfers are transfers of un-appropriated fund balance from the coal severance tax local impact account (shared account) to the general fund at fiscal year end. The amount transferred depends upon coal tax revenue and appropriations. Coal tax transfers are projected to be the difference between the OBPP estimate of the shared account and the appropriations for FY 2007. The FY 2007 projection is $0.314 million, and the coal tax transfers are projected to return to zero in FY 2008 and FY 2009. The forecast for FY 2008 and FY 2009 was made under the assumption that appropriations will match revenue estimates in the next biennium.

The tax credit transfer authorized in HB 667 (2005 Session) is projected at $3.349 million for FY 2007 and $3.950 million for FY 2008 through FY 2009. The small business tax credit was paid by the general fund and is being reimbursed from the cigarette tax revenue through the State Auditor's Office.

Fifty-percent of the revenue from Taylor grazing will be deposited to the general fund starting in FY 2007 (17-3-222, MCA). This revenue is to be used for equalization of the elementary BASE funding program. The FY 2007 through FY 2009 projection is $0.134 million, which is 50% of the Taylor grazing collections in FY 2006.

Total revenue from large individual sources is projected to be $22.166 million in FY 2007 $21.515 million in FY2008, and $21.461 in FY 2009.

Small Individual Sources of Revenue

There are many small sources of revenue that were also forecast individually. These sources are also projected like the larger sources of revenue; they are assessed for law changes and forecast based on trends or discussions with agencies. In FY 2006, there were fifty-two individually forecast small revenue sources. The actual and projected total of small revenue sources is shown in Table 4.

Revenue from the small sources is projected to decrease to $6.387 million in FY 2007 and $6.374 in FY 2008. In FY 2009 small source revenue is projected to increase 2.29% to $6.520 million.

Table 4
Small Individual Sources of Revenue
($ millions)

Fiscal Year	Total Collections	% Change
A 2001	$ 9.536	
A 2002	$ 9.342	-2.04%
A 2003	$ 10.677	14.29%
A 2004	$ 13.040	22.13%
A 2005	$ 5.861	-55.05%
A 2006	$ 6.907	17.84%
F 2007	**$ 6.387**	**-7.52%**
F 2008	**$ 6.374**	**-0.20%**
F 2009	**$ 6.520**	**2.29%**

Revenue Sources Estimated as a Group

Table 5
Collections from Sources Estimated as a Group
($ millions)

Fiscal Year	Total Collections	% Change
A 2001	$ 0.344	
A 2002	$ 0.389	13.22%
A 2003	$ 0.265	-31.88%
A 2004	$ 0.345	30.08%
A 2005	$ 0.204	-40.73%
A 2006	$ 0.445	117.46%
F 2007	**$ 0.332**	**-25.32%**
F 2008	**$ 0.332**	**0.00%**
F 2009	**$ 0.332**	**0.00%**

The general fund revenue that is not classified in one of the three previous groups is estimated as a single group. Table 5 shows actual and projected general fund revenue from these residual revenue sources.

General fund revenue from these residual sources is projected to be $0.332 million in FY 2007 through FY 2009. This is the average group revenue from FY 2001 through FY 2006.

Bentonite Tax

Bentonite mines in Montana pay a production tax based on the weight of bentonite produced (15-39-101, MCA). Prior to FY 2006, bentonite production was taxed as Class 1 property using a net proceeds tax. SB 276 (2005 Session) eliminated the net proceeds tax and created the current production tax. Revenue is distributed into the state special revenue university 6-mill account, a state special revenue account for distribution to the producing counties, and the general fund. Table 6 shows actual bentonite tax general fund revenue for FY 2006 and forecast revenue for FY 2007 through FY 2009. Bentonite revenue decreases substantially to $0.314 million in FY 2007 because FY 2006 included additional FY 2005 production due to the timing of the tax change. Revenue is projected to increase in FY 2008 to $0.337 million and in FY 2009 to $0.342 million. The following tables and discussion explain the estimation method for Bentonite tax revenue.

Table 6
Bentonite Tax - General Fund
($ millions)

Fiscal Year	General Fund	% Change
A 2006	$0.504	-
F 2007	**$0.314**	**-37.78%**
F 2008	**$0.337**	**7.47%**
F 2009	**$0.342**	**1.43%**

Production is based on a survey of individual mines. The first 20,000 tons produced in a year are tax exempt. Table 7 shows the total bentonite production less the exempt tonnage. Based on the survey, taxable production is expected to decrease to $1.135 million in FY 2007 because more than one year of production is included in FY 2006. Production is projected to fall to $1.060 million in FY 2008 and then increase slightly to $1.208 million in FY 2009.

Table 7
Taxable Bentonite Production
(tons millions)

Fiscal Year	Total Production		Total Exempt Tonnage		Taxable Production
A 2006	2.010	-	0.080	=	1.930
F 2007	**1.215**	**-**	**0.080**	**=**	**1.135**
F 2008	**1.140**	**-**	**0.080**	**=**	**1.060**
F 2009	**1.288**	**-**	**0.080**	**=**	**1.208**

Table 8 shows bentonite revenue, which is the taxable production multiplied by the average tax rate. The average tax rate varies by year because the actual tax rate is based on each mine's production which changes yearly, so the tax rate varies with production.

Table 8
Bentonite Production Tax Revenue

Fiscal Year	Taxable Production (tons millions)		Average Tax ($/ton)		Tax ($ millions)	Percent Change
A 2006	1.930	X	$1.387	=	$2.676	-
F 2007	**1.135**	**X**	**$1.439**	**=**	**$1.633**	**(38.98%)**
F 2008	**1.060**	**X**	**$1.627**	**=**	**$1.724**	**5.61%**
F 2009	**1.208**	**X**	**$1.428**	**=**	**$1.724**	**0.00%**

Tax collections are projected to decrease to $1.633 million in FY 2007 due to more than one year of taxable production in FY 2006. Although production decreases between FY 2007 and FY 2008, the tax collected increases 5.61% to $1.724 million because of an increase in the average tax rate. Tax collections are projected to remain at $1.724 million in FY 2009.

There is a royalty tax on bentonite production. Royalties paid by the mines to royalty owners are taxed at a rate of 15%. As shown in Table 9, the royalty tax is added to the production tax for total collections. The royalty payment projection is obtained from the mine survey. Total collections are forecast to decrease to $1.692 million in FY 2007, and then increase to $1.794 million in FY 2008 and FY 2009.

Table 9
Total Bentonite Tax Revenue
($ millions)

Fiscal Year	Production Tax		Royalty Tax		Total Production and Royalty Tax	Percent Change
A 2006	$2.676	+	$0.121	=	$2.797	
F 2007	**$1.633**	+	**$0.059**	=	**$1.692**	**(39.51%)**
F 2008	**$1.724**	+	**$0.069**	=	**$1.794**	**6.02%**
F 2009	**$1.724**	+	**$0.070**	=	**$1.794**	**0.04%**

The allocation of the tax revenue shown in Table 10 is in accordance with SB 276 (2005 Session).

Table 10
Bentonite Production and Royalty Tax Revenue Allocation by Fund
($ millions)

Account	FY 2006 Actual	FY 2007 Projected	FY 2008 Projected	FY 2009 Projected
Distribution to Carter & Carbon Counties	$2.223	**$1.341**	**$1.419**	**$1.417**
University 6-Mill Account	$0.064	**$0.037**	**$0.037**	**$0.035**
General Fund[1]	$0.510	**$0.314**	**$0.337**	**$0.342**
Total Bentonite Production and Royalty Tax	$2.797	**$1.692**	**$1.794**	**$1.794**

[1]General Fund revenue does not match Table 6 or Table 11 due to accrual estimation

The allocation percentages change yearly based on 15-39-110, MCA. Revenue from the bentonite tax allocated to the general fund is considered other revenue because it is a small source of revenue. In FY 2006 the bentonite tax contributed $0.510 million to the general fund, as shown in Table 10. The general fund portion of bentonite tax revenue is projected to be $0.314 million in FY 2007, $0.337 million in FY 2008, and $0.342 million in FY 2009.

Total Other Revenue

Total other revenue shown in Table 11 is the sum of the items estimated individually, the items estimated as a group, and the bentonite tax.

Table 11
Total Other Revenue
($ millions)

Component of Estimate	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
One-Time Revenue	$2.300	$0.917	$4.634	$0.957	**$0.700**	**$0.700**	**$0.700**
Large Sources of Other Revenue	$12.653	$15.130	$23.852	$23.054	**$22.166**	**$21.515**	**$21.461**
Small Sources of Other Revenue	$10.677	$13.040	$5.861	$6.907	**$6.387**	**$6.374**	**$6.520**
Revenue Items Estimated As a Group	$0.265	$0.345	$0.204	$0.445	**$0.332**	**$0.332**	**$0.332**
Bentonite Tax	$0.000	$0.000	$0.000	$0.504	**$0.314**	**$0.337**	**$0.342**
Total Other Revenue	$25.895	$29.432	$34.551	$31.867	$29.899	$29.259	$29.356

General fund revenue from other revenue sources is projected to be $29.899 million in FY 2007, $29.259 million in FY 2008, and $29.356 million in FY 2009.

Data Sources

Historical receipts are from SABHRS. Information on changes in revenues and projections of future revenue are from state agencies, fiscal notes from previous legislative sessions, and information contained in OBPP budget analyses and other reports produced by the Legislative Fiscal Division.

GOVERNOR
BRIAN SCHWEITZER

STATE OF MONTANA

NON-GENERAL FUND REVENUE ESTIMATES

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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Non-General Fund Revenue Estimates

Non-general fund estimates that have individual write-ups are as follows:

- State Land Trusts Interest and Income (School Interest and Income)
- Tobacco Settlement Trust Interest
- Introduction to Coal Trusts
- Treasure State Endowment Fund Interest
- Treasure State Endowment Regional Water System Fund Interest
- Big Sky Economic Development Trust Interest
- Resource Indemnity Tax
- Resource Indemnity Trust Interest

STATE TRUST LAND INTEREST AND INCOME

Revenue Description

The United States Congress granted public lands to the state of Montana by the Enabling Act in 1822 to provide income to support public schools. The Enabling Act also granted smaller amounts of land to other state institutions. The land grants have been supplemented over time through gifts to the state, reversions of unclaimed property, and subsequent acts.

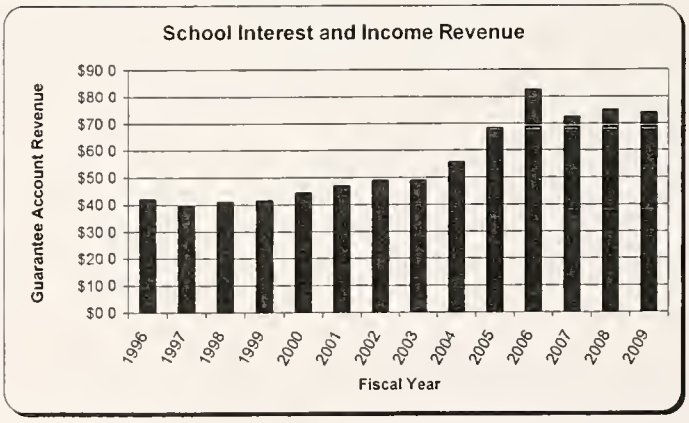
Proceeds from property sales of the granted land are deposited into an inviolate trust fund; thus the proceeds are non-distributable. The trust fund is invested in bonds and 5% of the interest income is retained by the fund, while 95% of the interest earned by the trust fund, along with other income from the trust lands, is considered distributable. The distributable income from the common school trust land is deposited in the guarantee account for spending on public schools. The distributable income from the other trust lands goes to state special revenue accounts. Costs of administering state lands are deducted from allocations of the income produced from mineral royalties, property sales and leases.

Historical and Projected Revenue

Table 1 shows actual guarantee account revenue from the common school trust for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Common School Interest and Income
($ millions)

Fiscal Year	Guarantee Account	Percent Change
A 1996	$42.032	10.89%
A 1997	$39.539	-5.93%
A 1998	$41.130	4.02%
A 1999	$41.433	0.74%
A 2000	$44.296	6.91%
A 2001	$46.846	5.76%
A 2002	$48.938	4.46%
A 2003	$48.977	0.08%
A 2004	$55.663	13.65%
A 2005	$68.036	22.23%
A 2006	$82.606	21.41%
F 2007	**$72.462**	**-12.28%**
F 2008	**$75.106**	**3.65%**
F 2009	**$73.979**	**-1.50%**



Through FY 2001, school interest and income was deposited in the general fund. SB 495 (2001 Session) and HB 7 (2002 Special Session) created a new special revenue account, the guarantee account. Beginning in FY 2002, school trust interest and income is deposited in the guarantee account rather than the general fund.

Revenue increased in FY 2002 because SB 495 resulted in a loan of $46 million from the coal trust to the school trust fund. The higher school trust fund balance increased interest earnings. Revenue increased in FY 2004 through FY 2006 primarily because of increases in timber and mineral revenues. Common school land revenue is forecast to decrease 12% in FY 2007 as timber revenue and mineral revenue decrease. Revenue in FY 2008 and FY 2009 is projected to remain close to FY 2007 levels.

Forecast Methodology and Projection Calculation

There are three parts to forecasting state land trust interest and income.

1. Estimate common school trust fund investment income
2. Estimate income from state trust lands
3. Determine the distribution of the interest and income among the guarantee account, the trust and legacy fund, and the accounts for administering state lands.

Trust Fund Interest Earnings

The corpus of the common school trust is combined with the nine other state land trusts in the trust and legacy fund. This fund is invested in the short-term investment pool (STIP) and the trust-fund bond pool (TFBP).

The balance in the trust and legacy fund grows through deposits of interest and income from the nine participating trusts. The participating trusts are:

- The common school trust,
- The second grant Montana State University trust,
- The Morrill grant Montana State University trust,
- The Deaf and Blind School trust,
- The Pine Hills Reform School trust,
- The Normal College trust,
- The Montana Technology trust,
- The veteran's home trust, and
- The University of Montana trust.

Forecasts of the interest rates for STIP and TFBP balances are found in the *Interest Rate Introduction*. Table 2 provides a summary of actual and projected trust and legacy income from the STIP and TFBP investment in FY 2003 through FY 2009.

Table 2
Trust and Legacy Fund Investment Income
($ millions)

	STIP Investment					TFBP Investment				
Fiscal Year	Average Balance		STIP Rate		STIP Income	Average Balance		TFBP Rate		TFBP Income
A 2003	$ 4.526	x	1.51%	=	$ 0.068	$409.621	x	7.12%	=	$ 29.147
A 2004	$ 4.597	x	1.16%	=	$ 0.054	$410.654	x	7.33%	=	$ 30.087
A 2005	$10.497	x	2.57%	=	$ 0.270	$410.654	x	6.84%	=	$ 28.106
A 2006	$10.336	x	3.95%	=	$ 0.408	$417.112	x	5.86%	=	$ 24.428
F 2007	**$ 6.780**	**x**	**5.18%**	**=**	**$ 0.351**	**$423.140**	**x**	**6.06%**	**=**	**$ 25.650**
F 2008	**$ 7.622**	**x**	**4.74%**	**=**	**$ 0.361**	**$427.948**	**x**	**5.90%**	**=**	**$ 25.263**
F 2009	**$ 7.711**	**x**	**4.72%**	**=**	**$ 0.364**	**$432.942**	**x**	**5.68%**	**=**	**$ 24.584**

The average trust and legacy fund balance in STIP is forecast to decrease to $6.780 million in FY 2007 due to a shift in investment from STIP into TFBP. The STIP investment balance is projected to increase through FY 2009 to $7.711 million. Though the STIP interest rate increases in FY 2007, STIP income is projected to decrease with the smaller fund balance. STIP income is then projected to increase through FY 2009 as the balance increases.

The average trust and legacy fund TFBP balance did not increase in FY 2005 because the Department of Natural Resources and Conservation (DNRC) increased investment in STIP for liquidity purposes. The average balance in TFBP increased in FY 2006 to $417.112 million and is projected to continue increasing up to $432.942 million in FY 2009. TFBP income is projected to increase in FY 2007 as the balance and rate increase. Income is then projected to fall slightly through FY 2009 as the interest rate declines.

The combined STIP and TFBP average fund balance is projected to increase, as shown in Table 3, and the total investment income is expected to be higher than in FY 2006. Income is projected to increase to $26 million in FY 2007, and then decrease slightly to $25.6 million in FY 2008 and to $24.9 million in FY 2009. The small decline in investment income is primarily due to the decreases in the TFBP rate.

Table 3
Trust and Legacy Fund
Total Investment Income
($ millions)

Fiscal Year	Average Fund Balance		Average Fund Yield		Total Investment Income	Percent Change
A 2003	$414.147	x	7.05%	=	$ 29.215	(2%)
A 2004	$415.251	x	7.26%	=	$ 30.141	3%
A 2005	$421.151	x	6.74%	=	$ 28.376	(6%)
A 2006	$427.448	x	5.81%	=	$ 24.836	(12%)
F 2007	**$429.921**	**x**	**6.05%**	**=**	**$ 26.001**	5%
F 2008	**$435.570**	**x**	**5.88%**	**=**	**$ 25.624**	(1%)
F 2009	**$440.653**	**x**	**5.66%**	**=**	**$ 24.948**	(3%)

Total investment income earned on the trust and legacy fund balance is distributed to the nine permanent funds that have balances in the account. Table 4 shows the allocation of actual interest income for FY 2003 through FY 2006 and forecast income for FY 2007 through FY 2009.

Table 4
Trust and Legacy Fund Income Allocations to the Permanent Trusts
($ millions)

	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Projected	FY 2008 Projected	FY 2009 Projected
Participating Trusts							
Common School Trust	$27.202	$27.991	$26.306	$23.061	**$24.104**	**$23.755**	$23.128
MSU Second Grant Trust	$0.559	$0.614	$0.576	$0.496	**$0.528**	**$0.520**	$0.507
Morrill Grant Trust	$0.213	$0.232	$0.240	$0.212	**$0.220**	**$0.217**	$0.211
Deaf & Blind Trust	$0.203	$0.212	$0.201	$0.175	**$0.184**	**$0.181**	**$0.176**
Pine Hills Trust	$0.192	$0.214	$0.218	$0.192	**$0.200**	**$0.197**	**$0.192**
Normal College Trust	$0.417	$0.434	$0.419	$0.355	**$0.384**	**$0.378**	**$0.368**
Montana Tech Trust	$0.317	$0.333	$0.313	$0.271	**$0.286**	**$0.282**	**$0.275**
Veterans Home Trust	$0.001	$0.001	$0.001	$0.001	**$0.001**	**$0.001**	**$0.001**
UM Trust	$0.107	$0.110	$0.102	$0.088	**$0.093**	$0.092	$0.090
Total Allocation	$29.210	$30.141	$28.376	$24.850	**$26.001**	**$25.624**	$24.948

The common school trust allocation of the trust and legacy fund interest income is projected to be $24.104 million in FY 2007, $23.755 million in FY 2008 and $23.128 million in FY 2009.

Income from Common School Trust Lands

For the purposes of this forecast, the income generating activities on school trust lands are divided into five categories:

1. Agricultural and Grazing Revenue;
2. Non-Royalty Mineral Revenue;
3. Timber Revenue;
4. Mineral Royalties Revenue;
5. Other Revenue.

Income from the first three categories has traditionally been distributable, meaning the income is primarily distributed to the guarantee account. Non-distributable income is inviolable and must be placed into the trust and legacy fund. Less than 5% of income from the first three categories is non-distributable.

Income from mineral royalties was non-distributable until SB 495 (2001 Session) diverted all net mineral royalties from common school trust land (after administration costs and loan payments to the coal trust permanent fund) into the guarantee account.

Other revenue includes income from leases and licenses on common school land and income from land sales and easements. The income from licenses and leases is distributable, but income from easements and land sales is non-distributable.

1. *Agricultural and Grazing Revenue*

Agricultural rents are received from crops grown on school lands. Agricultural rents are due by December of each year, so receipts in a fiscal year are for production in the previous calendar year. Rents are typically 25% of the gross value of the crop, so rental income varies with the value of crops. Included in agricultural rental income are crop payments from the USDA Farm Service Agency. The crop payments include direct payment contracts, Conservation Reserve Program (CRP) payments, and loan deficiency payments.

The primary agricultural crop in Montana is wheat. Because the rental amount is determined by value of crops grown on trust land, agricultural rents tend to follow the value of the wheat crop. The value of the wheat crop is calculated by multiplying acres of wheat harvested in Montana by the average Montana wheat price. Wheat crop values and agricultural rents from common school land are shown in Table 5.

Table 5
Common School Trust Lands Agricultural and Grazing Rents
($ millions)

	Agricultural Rents				Grazing Rents				Total	
Fiscal Year	Value of MT Wheat Crop	Percent Change	Agricultural Rents	Percent Change	Average Beef Cattle Price	Percent Change	Grazing Rents	Percent Change	Agricultural and Grazing Rents	Percent Change
A 2003	$0.447	47.53%	$7.975	13.95%	$76.125	-6.21%	$5.243	-4.10%	$13.218	6.03%
A 2004	$0.531	18.67%	$8.051	0.96%	$72.145	-5.23%	$4.971	-5.19%	$13.022	-1.48%
A 2005	$0.625	17.75%	$8.816	9.50%	$87.247	20.93%	$5.918	19.06%	$14.735	13.15%
A 2006	$0.693	10.85%	$9.453	7.22%	$92.670	6.21%	$6.277	6.06%	$15.730	6.76%
F 2007	**$0.530**	**-23.56%**	**$8.561**	**-9.44%**	**$100.702**	**8.67%**	**$6.884**	**9.68%**	**$15.445**	**-1.81%**
F 2008	**$0.516**	**-2.50%**	**$8.497**	**-0.75%**	**$86.372**	**-14.23%**	**$5.864**	**-14.83%**	**$14.360**	**-7.03%**
F 2009	**$0.513**	**-0.71%**	**$8.479**	**-0.21%**	**$84.134**	**-2.59%**	**$5.704**	**-2.72%**	**$14.183**	**-1.23%**

The forecast wheat crop values for FY 2007 through FY 2009 were calculated using projected changes in national wheat production and price from the USDA. The projected crop values were then used in a statistical model using linear regression to forecast the revenue from agricultural rentals in FY 2007 through FY 2009. As shown in Table 5, the agricultural rents on school lands are projected to decrease yearly to $8.561 million in 2007, $8.497 million in FY 2008, and $8.479 million in FY 2009.

Grazing leases are based on a fixed fee per animal unit month (AUM). Two standard rates are used to set fees by AUM for about 93% of the leases. Competitive bidding is used to set fees in the other leases. The standard rates are recalculated every year, and are based on average cattle prices in the previous year. This creates a strong relationship between grazing revenue from trust lands and average Montana beef cattle prices. As shown in Table 5, the beef cattle prices and grazing rents change at similar rates. This relationship is used to project school lands grazing revenue from the actual and the USDA projected beef cattle price in the previous year. Grazing rents are forecast to increase in FY 2007 to $6.884 million and then decrease in FY 2008 to $5.864 million, and to $5.704 million in FY 2009.

Actual and projected revenue for FY 2003 to FY 2009 from total grazing and agriculture production is shown in Table 5. In FY 2007 agriculture and grazing revenue is projected to decrease slightly to $15.445 million, because of expected declines in the price of wheat. Rental income is expected to continue falling in FY 2008 and FY 2009. The $1.085 million drop in FY 2008 revenue is also caused by a small expected decrease in the wheat price and a large decrease in predicted beef price.

2. *Non-Royalty Mineral Revenue*

Non-royalty mineral revenue includes:

- Mineral leases – payments that leaseholders pay each year to retain the rights to a mineral lease regardless of the level of production.
- Bonuses – up-front payments for new leases.
- Non-drilling penalties – annual penalties charged to leaseholders for failure to drill on an oil or gas lease within five years of lease commencement.
- In lieu of exploration – penalty for not exploring on lease.
- Seismic exploration – payment for right to seismic activity.
- Mineral land use licenses (luls) – licenses for other activity on state land.
- Gravel permits – leases on gravel sites.

Mineral leases include payments on oil and gas leases and other mineral leases. As shown in Table 6, payments on oil and gas leases on school lands totaled $2.331 million in FY 2006 and were projected for FY 2007 through FY 2009 using a time trend. Oil and gas leases are projected to be $2.236 million in FY 2007, $2.365 million in FY 2008, and $2.494 million in FY 2009. Payments on all other mineral leases on school lands totaled $54,000 in FY 2006, and are forecast to remain at this level through FY 2009.

Table 6
School Trust Non-Royalty Mineral Income
($ millions)

Fiscal Year	Oil & Gas Leases	Other Mineral Leases	Oil & Gas Non-Drilling Penalties	Oil & Gas Bonuses	Coal Bonuses	Other Non-Royalty Mineral Income	Total
A 2003	$1.575	$0.058	$0.399	$0.301	-	$0.012	$2.346
A 2004	$1.649	$0.054	$0.534	$0.871	-	$0.012	$3.119
A 2005	$1.893	$0.057	$0.641	$3.827	-	$0.013	$6.430
A 2006	$2.331	$0.054	$0.864	$13.005	-	$0.023	$16.277
F 2007	**$2.236**	**$0.054**	**$0.815**	**$5.922**	**-**	**$0.023**	**$9.051**
F 2008	**$2.365**	**$0.054**	$0.896	**$5.922**	**-**	**$0.023**	**$9.261**
F 2009	$2.494	**$0.054**	$0.977	**$5.922**	**-**	**$0.023**	**$9.470**

Non-drilling penalties on school lands totaled $0.864 million in FY 2006 and were also modeled using a time trend. Penalties are projected to decrease in FY 2007 to $0.815 million and then increase to 0.896 million in FY 2008 and to $0.977 million in FY 2009.

FY 2006 oil and gas bonus revenue from school lands increased dramatically to $13.005 million. This increase in bonus revenue is primarily due to large increases oil and gas prices. The oil and gas bonus forecast is based on DNRC expectations of bonus revenue. Oil and gas bonuses are projected to decrease to $5.922 million in FY 2007 and remain at this level through FY 2009.

Bonus payments for coal leases were zero from FY 2003 through FY 2006. Coal bonus payments are projected to be zero in FY 2007 through FY 2009.

Other non-royalty mineral income is the total income from in lieu of exploration, seismic exploration, mineral luls, and gravel permits. Revenue from these four smaller sources is forecast to remain at the FY 2006 level of $.023 million for FY 2007 through FY 2009.

Total income from non-royalty mineral income is projected to decrease in FY 2007 to $9.051 million with the projected decrease in oil and gas bonuses. Income is projected to increase slightly in FY 2008 to $9.261 million and in FY 2009 to $9.470 million as mineral lease revenue increases.

3. *Timber Revenue*

DNRC has an annual timber sales goal based on the estimated maximum sustained yield on state forestlands. The successful bidders on state timber sales have several years to harvest the timber. Timber harvests vary from year to year because timber companies harvest as quickly as they can when prices are high, and postpone harvest when prices are low.

Administrative costs are taken out of gross timber revenue and allocated to the timber sales account. For the common school trust, 95% of the remaining revenue from the first 18 million board feet (mmbf) of timber sales is deposited into the guarantee account for general school funding while the extra 5% is deposited in the trust and legacy account. Net revenue from all sales after the first 18 mmbf is also deposited in the guarantee account, but is statutorily appropriated for use in technology acquisition. This is shown in Table 7.

Table 7 also shows actual gross timber revenue by trust from FY 2003 to FY 2006 and forecast revenue for FY 2007 through FY 2009. Revenue increased to $10.602 million in FY 2005 from $6.174 in FY 2004. This was caused by a much larger timber harvest on trust lands in FY 2005. The level harvest continued through FY 2006, with a slight decline in revenue to $10.227 million.

Table 7
Common School Trust Lands Timber Revenue
($ millions)

Fiscal Year	Gross Timber Revenue		Admin Costs		Net Timber Revenue		95% Allocation of Pre-18 MMBF (BASE Aid)		5% T&L Allocation of Pre-18 MMBF		Post-18 MMBF --School Technology Acquisition--
A 2003	$3.661	-	$1.958	=	$1.703	=	$1.618	+	$0.085	+	$0.000
A 2004	$6.147	-	$2.302	=	$3.846	=	$0.633	+	$0.033	+	$3.179
A 2005	$10.602	-	$2.536	=	$8.066	=	$3.469	+	$0.183	+	$4.414
A 2006	$10.227	-	$2.707	=	$7.520	=	$2.735	+	$0.144	+	$4.641
F 2007	**$8.660**	**-**	**$3.240**	**=**	**$5.420**	**=**	**$1.539**	**+**	**$0.081**	**+**	**$3.800**
F 2008	**$9.899**	**-**	**$3.201**	**=**	**$6.698**	**=**	**$2.183**	**+**	**$0.115**	**+**	**$4.400**
F 2009	**$9.582**	**-**	**$3.264**	**=**	**$6.318**	**=**	**$2.582**	**+**	**$0.136**	**+**	**$3.600**

Gross timber revenue from common school lands is projected by DNRC to be $8.660 million in FY 2007, $9.899 million in FY 2008, and $9.582 million in FY 2009. The decrease in revenue in FY 2007 reflects decreases in the timber price and planned timber sales. Timber revenue is projected to increase slightly in FY 2008 and FY 2009 due to planned future sales by DNRC.

4. *Mineral Royalties*

The common school land includes mineral rights and, as minerals are mined on school land, royalties are generated for the common school trust. Tax revenue from royalties on school land was previously deposited into the trust and legacy fund, but pursuant to SB 495 (2001 Session) the revenue is allocated to the guarantee account. As shown in Table 8, royalties are primarily from the sale of coal, oil, and natural gas on trust lands.

Table 8
Common School Trust Lands Mineral Royalties
($ millions)

Fiscal Year	Coal Royalties	Oil Royalties	Natural Gas Royalties	Sand & Gravel Royalties	Other Mineral Royalties	Total
A 2003	$3.877	$3.682	$1.995	$0.145	$0.003	$9.703
A 2004	$4.677	$4.852	$2.718	$0.167	$0.003	$12.416
A 2005	$4.240	$7.966	$4.330	$0.191	$0.003	$16.730
A 2006	$4.180	$14.759	$6.317	$0.350	$0.006	$25.612
F 2007	**$3.613**	**$14.229**	**$5.438**	**$0.350**	**$0.005**	**$23.635**
F 2008	**$3.813**	**$14.745**	**$7.307**	**$0.350**	**$0.005**	**$26.221**
F 2009	**$3.940**	**$14.780**	**$7.092**	**$0.350**	**$0.005**	**$26.167**

Coal is currently mined on the common school trust land. Estimates of future production on state lands were obtained from coal companies. Estimates of changes in coal prices were derived from Global Insight's coal producer price index. The changes in price and production were used to estimate the percent change in taxable value. Assuming royalty rates to remain constant, the projected percent changes in coal taxable value in FY 2007 through FY 2009 were applied to actual coal royalties in FY 2006 to forecast coal royalties. As shown in Table 8, coal royalties are projected to be $3.613 million in FY 2007, $3.813 million in FY 2008, and $3.940 million in FY 2009.

Production and price of oil and gas on common school land tend to follow statewide production and prices. The projected production and price from the OBPP oil and gas revenue estimate are used to forecast production and price of oil and natural gas on state lands in FY 2007 through FY 2009.

Oil and natural gas royalties are projected by multiplying projected price by production to get taxable value. This value is multiplied by the most recent royalty rate to get projected royalties. Oil and natural gas royalty projections are shown in Table 8. Oil royalties are projected to decrease to $14.229 million in FY 2007. The oil royalties are projected to increase to $14.745 in FY 2008 and to $14.780 million in FY 2009 due to increases in projected production. Natural gas royalties are expected to decrease to $5.438 million in FY 2007 and then increase to $7.307 million in FY 2008, and to decrease slightly in FY 2009 to $7.092 million. The changes in natural gas royalties are primarily cased by projected price fluctuations.

Revenue from other minerals is relatively insignificant, and is forecast to decrease slightly from FY 2006 levels. As shown in Table 8, this revenue includes sand and gravel royalties and other mineral royalties made up of metal and non-metal mineral royalties and salt water disposal from oil and gas wells. Total mineral royalty revenue is projected to decrease to $23.635 million in FY 2007. In FY 2008 and FY 2009 mineral royalty revenue is projected to increase to about $26.2 million.

School trust mineral royalties are allocated as shown in Table 9. SB 495 (2001 Session) established a loan from the permanent coal trust to the guarantee account with repayment from the mineral royalties. After the trust administration account allocation, the royalty revenue is used to pay off the SB 495 loan. DNRC plans to allocate all available royalty revenue to the loan; thus, the loan is projected to be paid off in FY 2008.

Table 9
School Trust Mineral Royalties Allocation
($ millions)

			Guarantee Account						Proposed Bill		
Fiscal Year	School Trust Mineral Royalties	=	Trust Admin Account Allocation	+	Coal Trust Loan Principal Payment	+	Coal Trust Loan Interest Payment	+	School Base Aid Allocation	School Base Aid Allocation	School Facility Account Allocation
A 2003	$9.703	=	$3.602	+	$0.000	+	$3.307	+	$2.794	$2.794	-
A 2004	$12.416	=	$3.312	+	$1.821	+	$3.405	+	$3.878	$3.878	-
A 2005	$16.730	=	$3.680	+	$2.650	+	$3.006	+	$7.394	$7.394	-
A 2006	$25.612	=	$3.905	+	$10.849	+	$2.256	+	$8.602	$8.602	-
F 2007	**$23.635**	**=**	**$3.900**	**+**	**$18.255**	**+**	**$1.480**	**+**	**$0.000**	**$0.000**	**$0.000**
F 2008	**$26.221**	**=**	**$3.900**	**+**	**$12.307**	**+**	**$0.487**	**+**	**$9.527**	**$0.000**	**$9.527**
F 2009	**$26.167**	**=**	**$4.000**	**+**	**$0.000**	**+**	**$0.000**	**+**	**$22.167**	**$0.000**	**$22.167**

Under current law, the royalties after the loan repayment will be allocated to the guarantee account for school base aid until a total of $138.895 million in net mineral royalties has been collected. The remaining royalties after the loan is paid are estimated to be around $50 million. The executive budget recommends setting aside all the remaining mineral royalty revenue for the purpose of funding school facility deferred maintenance beginning in the 2011 biennium. The school facility allocation is shown in Table 9 under the proposed bill section.

5. *Other Revenue*

Other revenue is made up of leases, licenses, interest income, easements, and land sales. As shown in Table 10, the leases and licenses include cabin and home site leases, commercial leases, public facilities leases, recreational licenses, and special use permits. Projections of the lease revenue are obtained from DNRC.

Interest is earned on school lands income between the time DNRC receives it and the time it is distributed. The interest income projection is based on previous revenue and STIP rates. Total distributable revenue from licenses and other income is projected to increase in FY 2007 to $2.359 million, decrease in FY 2008 to $2.335 million, and then increase slightly to $2.354 million in FY 2009.

Table 10
Other School Trust Income
($ millions)

Fiscal Year	Distributable: Cabin & Home Site Leases	Distributable: Commercial Leases	Distributable: Other Leases	Distributable: Special Use Permits & Recreational Licenses	Distributable: Interest Income	Distributable: Total	Non-Distributable: Easements	Non-Distributable: Land Sales	Total
A 2003	$0.324	$0.050	$0.210	$0.492	$0.189	$1.265	$0.185	$0.020	$1.470
A 2004	$0.273	$0.092	$0 305	$0.333	$0 200	$1 203	$1.077	$0.003	$2.283
A 2005	$0.319	$0.224	$0.538	$0.906	$0.408	$2.396	$0.995	$0.026	$3.416
A 2006	$0.331	$0 236	$0.534	$0.516	$0.642	$2.259	$0.475	-	$2.733
F 2007	**$0.360**	**$0.265**	**$0.539**	**$0.499**	**$0.696**	$2.359	**$0.475**	**-**	**$2.833**
F 2008	**$0.389**	**$0.265**	**$0.540**	**$0.499**	**$0.642**	$2.335	**$0.475**	**-**	**$2.809**
F 2009	**$0.419**	**$0.265**	**$0.541**	**$0.499**	**$0.630**	$2.354	**$0.475**	**-**	**$2.828**

Revenue from easements and land sales is deposited in the trust and legacy fund because it is non-distributable. Easement income comes primarily through the sale of rights-of-way. Easement income is projected to remain at the FY 2006 level of $0.475 million. In FY 2006 there was no income from the sale of school land. The projected income from land sales from FY 2007 through FY 2009 is zero because income from new land sales is going to be used to purchase more school land through a new land banking program. Total income to the trust is projected to be $2.833 million in FY 2007, $2.809 million in FY 2008, and $2.828 million in FY 2009 as shown below in Table 11 under other revenue.

Summary of Common School Trust Income

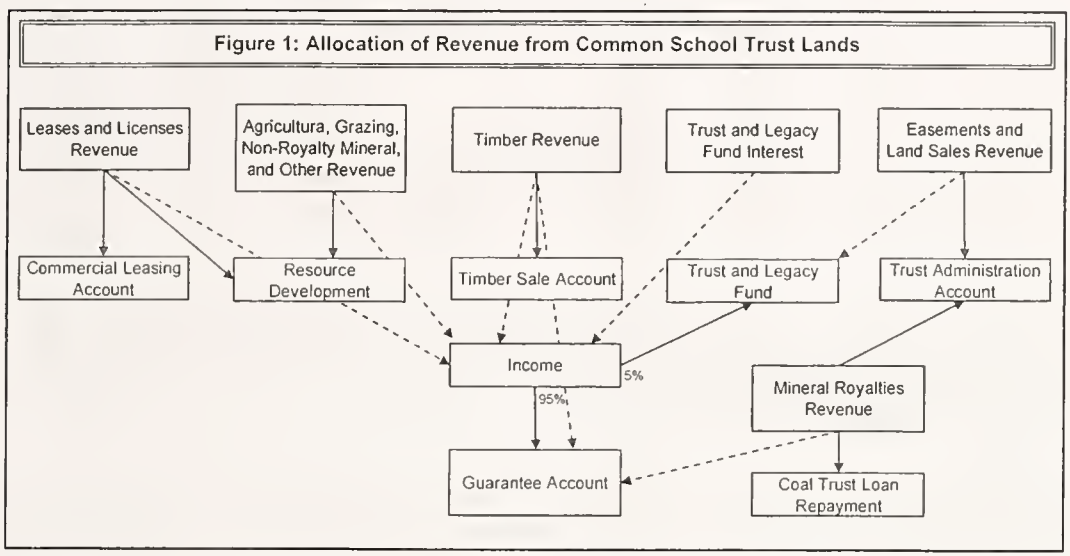
Total actual and projected revenue by income source for FY 2006 through FY 2009 is shown in Table 11. Income is projected to decrease significantly in FY 2007 due to a large decrease in mineral revenue, a decrease in timber revenue, and a small decrease in agricultural revenue. Revenue is then projected to increase in FY 2008 and decrease slightly in FY 2009.

Table 11
Projected Common School Trust Income
($ millions)

	FY 2006	FY 2007	FY 2008	FY 2009
Trust and Legacy Interest Income	$23.061	**$24.104**	**$23.755**	**$23.128**
Agriculture and Grazing Revenue	$15.730	**$15.445**	**$14.360**	**$14.183**
Non-Royalty Mineral Revenue	$16.277	**$9.051**	**$9.261**	**$9.470**
Timber Revenue	$10.227	**$8.660**	**$9.899**	**$9.582**
Mineral Royalties Revenue	$25.612	**$23.635**	**$26.221**	**$26.167**
Other Revenue	$2.733	**$2.833**	**$2.809**	**$2.828**
Total	$93.641	**$83.729**	**$86.305**	**$85.358**

Allocation of Revenue

Common school trust income is distributed among accounts that fund the administration of the trust lands, the trust and legacy fund, and the guarantee account. Figure 1 shows the allocation of income from the common school trust lands.



In Figure 1 the shaded boxes are the common school trust sources of revenue and the solid arrows show the administrative allocation of the revenue source. The dotted lines show where revenue is allocated after the administration costs are paid. Most of this revenue is distributable income distributed to the guarantee account, except the 5% that is deposited in the trust and legacy fund. Income from timber sales greater than 18 mmbf goes directly to the guarantee fund for technology acquisition without the 5% transfer to the trust and legacy fund. Income from easements and land sales is deposited directly into the trust and legacy fund. Revenue from mineral royalties repays the coal trust loan (SB 495, 2001 Session), funds the trust administration account, and the remaining income is deposited in the guarantee account.

Administration cost projections were obtained from DNRC. Table 10 shows the actual and projected allocation of common school trust income to the administration accounts, the trust and legacy fund, and the guarantee account for FY 2003 through FY 2009.

Table 12
Common School Trust Lands Revenue Allocation
($ millions)

Fiscal Year	Administrative Costs: Resource Development Account	Timber Sale Account	Trust Administration Account	Commercial Leasing Account	Trust and Legacy Fund	Guarantee Account	Total
A 2003	$0.499	$1.958	$3.602	-	$0.559	$48.977	$55.595
A 2004	$0.518	$2.302	$3.312	-	-$0.035	$55.663	$61.760
A 2005	$0.699	$2.536	$3.680	$0.067	$11.795	$68.036	$86.813
A 2006	$1.011	$2.707	$3.905	$0.068	$3.710	$82.606	$94.007
F 2007	**$1.010**	**$3.240**	**$3.900**	**$0.067**	**$3.050**	**$72.462**	**$83.729**
F 2008	$1.010	$3.201	$3.900	$0.067	$3.021	$75.106	$86.305
F 2009	$1.036	$3.264	$4.000	$0.067	$3.012	$73.979	$85.358

Revenue from agriculture and grazing leases, mineral leases, other licenses, non-commercial leases and other revenue is allocated to the resource development account for improving and developing state lands. The amount allocated to the account is based on what improvements are necessary, but the amount cannot exceed 3% of income from each trust.

Revenue from timber harvest on state trust lands is allocated to the timber sale account. Money in this account is appropriated by the Legislature to maximize the return on the trust land.

Income is allocated from mineral royalties, land sales, and easements to the trust administration account which covers the costs of administering the trust land.

The commercial leasing account is allocated 10% of the revenue from commercial leases on state land. Money in the account is used for the administration of commercial leases on state lands.

The trust and legacy fund receives income from land sales and easements and 5% of the income from common school land.

After the allocations to these accounts are made, the guarantee fund receives the remainder of the income. Projected guarantee account deposits are $72.462 million in FY 2007, $75.106 million in FY 2008, and $73.979 million in FY 2009.

Summary of Common School Trust

Table 13 shows the actual and forecast common school trust income, expenses and allocation from FY 2006 to FY 2009.

Table 13
School Trust Income Allocations to the Guarantee Fund and Distributions to Sub-Accounts

	FY 2006 Actual	FY 2007 Projected	FY 2008 Projected	FY 2009 Projected
Income				
Investment Income	$ 23.048	$ 24.104	$ 23.755	$ 23.128
Agriculture and Grazing Rents	15.730	15.445	14.360	14.183
Non-Royalty Mineral Income	16.420	9.051	9.261	9.470
Timber Revenue < 18 mmbf	5.586	4.860	5.499	5.982
Licenses and Other Income	2.259	2.359	2.335	2.354
Total Income	$ 63.043	$ 55.819	$ 55.209	$ 55.117
Expenses				
Resource Development Account	(1.011)	(1.010)	(1.010)	(1.036)
Timber Sales Account	(2.707)	(3.240)	(3.201)	(3.264)
SB 137 Commercial Leasing Account	(0.068)	(0.067)	(0.067)	(0.067)
Total Expenses	$ (3.787)	$ (4.317)	$ (4.278)	$ (4.367)
Income Less Expenses	$ 59.256	$ 51.502	$ 50.931	$ 50.750
Distributable Income (95% of Income Less Expenses)	$ 56.294	$ 48.927	$ 48.385	$ 48.212
Plus 100% Timber Revenue > 18 mmbf	4.641	3.800	4.400	3.600
Total Net Income	$ 60.935	$ 52.727	$ 52.785	$ 51.812
Mineral Royalties				
Mineral Royalties	$ 25.612	$ 23.635	$ 26.221	$ 26.167
Mineral Royalties TAC Expense	(3.905)	(3.900)	(3.900)	(4.000)
Net Mineral Royalties	$ 21.707	$ 19.735	$ 22.321	$ 22.167
Total Guarantee Fund Income	$ 82.642	$ 72.462	$ 75.106	$ 73.979
Distribution of Guarantee Fund Income				
SB 495 Coal Trust Loan Principal	$ 10.849	$ 18.255	$ 12.307	$ -
SB 495 Coal Trust Loan Interest	2.256	1.480	0.487	-
Technology Acquisition Account	4.641	3.800	4.400	3.600
School Equalization - Base Aid	64.896	48.927	57.912	70.379
Total Guarantee Fund Distribution	$ 82.642	$ 72.462	$ 75.106	$ 73.979
Proposed Distribution of Guarantee Fund Income				
SB 495 Coal Trust Loan Principal	$ 10.849	$ 18.255	$ 12.307	$ -
SB 495 Coal Trust Loan Interest	2.256	1.480	0.487	-
Technology Acquisition Account	4.641	3.800	4.400	3.600
School Equalization - Base Aid	64.896	48.927	48.385	48.212
School Facility Improvement Account	-	-	9.527	22.167
Total Guarantee Fund Distribution	$ 82.642	$ 72.462	$ 75.106	$ 73.979

Income to the common school trust is shown at the top of Table 13. This income includes trust and legacy fund interest, agriculture and grazing income, non-royalty mineral income, income timber sales less than 18 mmbf, and license and lease income. The allocation to administration accounts are subtracted from the total revenue. Ninety-five percent of the income less expenses is distributable and 5% is deposited into the trust and legacy fund. Timber revenue over 18 mmbf is added to the distributable income to get total net income. Total common school trust net income is projected to be $52.727 million in FY 2007, $52.785 million in FY 2008, and $51.812 million in FY 2009.

Mineral royalties less the trust administration account expense are also added to net income for the total guarantee fund deposit. The mineral royalties are used to pay back the SB 495 (2001 Session) loan, but they are still deposited into the guarantee fund. Total guarantee fund income is projected to be $72.462 million in FY 2007, $75.106 million in FY 2008, and $73.979 million in FY 2009.

The distribution of the guarantee fund income is at the bottom of Table 13. The SB 495 loan payment is projected to equal the mineral royalty revenue in FY 2007 of $19.735 million. In FY 2008, $12.794 million will pay off the loan and the remaining revenue will be allocated to the guarantee fund.

The technology acquisition account is allocated the income from the timber revenue over 18 mmbf. The remaining income is distributed to BASE Aid, the K - 12 education funding.

BASE aid is projected to be allocated $48.927 million in FY 2007, $57.912 million in FY 2008, and $70.379 million in FY 2009. Table 13 shows the guarantee fund distribution that occurs under the proposed executive budget to create the school facility improvement account. The executive budget proposal is for BASE aid to be $48.927 million in FY 2007, $48.385 million in FY 2008, and $48.212 million in FY 2009 and the school facility improvement account to be allocated $9.527 million in FY 2008 and $22.167 million in FY 2009.

Revenue Estimate for State Land Trust Funds

DNRC manages all state trust land. Revenue for the smaller land trusts is estimated as part of the process of estimating revenue from the school trust. Table 14 summarizes the projected revenue by income source for each state land trust.

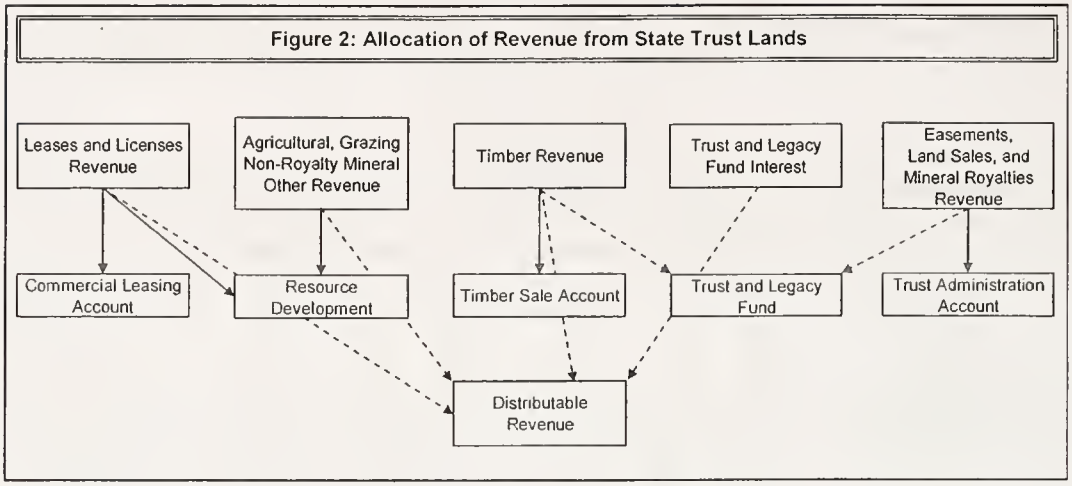
Table 14
State Lands Trust Funds
Interest and Income Revenue
($ millions)

	Trust Fund	Trust and Legacy Interest Income	Agriculture and Grazing Revenue	Non-Royalty Mineral Revenue	Licenses and Other Revenue	Timber Revenue	Mineral Royalties Revenue	Easements and Land Sales Revenue	Total
FY 2007									
	Common Schools	$ 24.104	$ 15.445	$ 9.051	$ 2.359	$ 8.660	$ 23.635	$ 0.475	$ 83.729
	Capitol Building	-	0.288	0.051	0.069	1.192	0.070	0.010	1.680
	MSU Second	0.528	0.022	0.000	0.435	0.575	0.003	-	1.563
	Morrill	0.220	0.138	0.082	0.029	0.147	0.052	0.000	0.668
	Deaf & Blind	0.184	0.083	0.003	0.036	0.157	0.000	0.001	0.464
	Pine Hills	0.200	0.127	0.011	0.079	0.133	-	-	0.550
	Normal School	0.384	0.146	0.011	0.045	0.363	0.008	0.057	1.013
	Montana Tech	0.286	0.216	0.023	0.359	0.271	0.024	0.526	1.706
	Veterans Home	0.001	0.010	-	0.004	-	-	-	0.016
	UM	0.093	0.080	0.004	0.045	0.001	0.001	-	0.224
	Total FY 2007	**$ 26.001**	**$ 16.555**	**$ 9.237**	**$ 3.459**	**$ 11.500**	**$ 23.793**	**$ 1.068**	**$ 91.613**
FY 2008									
	Common Schools	$ 23.755	$ 14.360	$ 9.261	$ 2.335	$ 9.899	$ 26.221	$ 0.475	$ 86.305
	Capitol Building		0.253	0.053	0.072	1.460	0.080	0.010	1.929
	MSU Second	0.520	0.019	0.000	0.468	0.678	0.003	-	1.689
	Morrill	0.217	0.121	0.084	0.029	0.175	0.069	0.000	0.695
	Deaf & Blind	0.181	0.074	0.003	0.037	0.297	0.000	0.001	0.594
	Pine Hills	0.197	0.112	0.012	0.083	0.433	-	-	0.837
	Normal School	0.378	0.131	0.012	0.047	0.433	0.011	0.057	1.068
	Montana Tech	0.282	0.204	0.025	0.384	0.324	0.024	0.526	1.770
	Veterans Home	0.001	0.009	-	0.005	-	-	-	0.015
	UM	0.092	0.075	0.004	0.046	0.001	0.001	-	0.219
	Total FY 2008	**$ 25.624**	**$ 15.358**	**$ 9.454**	**$ 3.506**	**$ 13.702**	**$ 26.409**	**$ 1.068**	**$ 95.122**
FY 2009									
	Common Schools	$ 23.128	$ 14.183	$ 9.470	$ 2.354	$ 9.582	$ 26.167	$ 0.475	$ 85.358
	Capitol Building		0.248	0.055	0.075	1.503	0.078	0.010	1.970
	MSU Second	0.507	0.019	0.000	0.502	0.640	0.003	-	1.670
	Morrill	0.211	0.118	0.086	0.030	0.171	0.067	0.000	0.683
	Deaf & Blind	0.176	0.073	0.003	0.039	0.391	0.000	0.001	0.683
	Pine Hills	0.192	0.109	0.013	0.088	0.423	-	-	0.825
	Normal School	0.368	0.128	0.012	0.049	0.423	0.011	0.057	1.047
	Montana Tech	0.275	0.202	0.026	0.410	0.363	0.024	0.526	1.826
	Veterans Home	0.001	0.009	-	0.005	-	-	-	0.015
	UM	0.090	0.074	0.005	0.046	0.001	0.001	-	0.216
	Total FY 2009	**$ 24.948**	**$ 15.163**	**$ 9.671**	**$ 3.596**	**$ 13.497**	**$ 26.351**	**$ 1.068**	**$ 94.294**

Total income from all state land trusts, including the common school trust, is projected to be $91.613 million in FY 2007, $95.122 million in FY 2008, and $94.294 million in FY 2009.

Revenue from the state land trusts is used to fund administration costs. Figure 2 shows revenue allocation for the state land trusts other than the common school trust. The

shaded boxes indicate the sources of revenue for the state land trusts, and the solid arrows show the administration allocation of the revenue source. The dotted arrows indicate the revenue flow for the funds that remain after administration costs are allocated.



Income is allocated to state special revenue accounts for distribution or it is deposited in the trust and legacy fund. Income from timber harvests on capital building trust land and the university trust lands are distributable, but income from timber harvests on the remaining trust land is allocated to the inviolate trust and legacy fund. Table 15 shows the projected allocation of state land trust revenue by trust.

Table 15
State Lands Trust Funds
Interest and Income Allocation
($ millions)

	Trust Fund	Trust Lands Administration	Resource Development Account	Timber Sales Account	Commercial Leasing Account	Guarantee Account	Distributable Revenue	Trust and Legacy Fund	Total
FY 2007									
	Common Schools	$ 3.900	$ 1.010	$ 3.240	$ 0.067	$ 72.462	$ -	$ 3.050	$ 83.729
	Capitol Building	0.063	0.013	0.446	0.001		1.157	-	1.680
	MSU Second	0.000	0.012	0.215	0.002		1.331	0.002	1.563
	Morrill	-	-	-	-		0.616	0.052	0.668
	Deaf & Blind	0.013	0.003	0.059	0.001		0.301	0.086	0.464
	Pine Hills	0.015	0.006	0.050	0.002		0.409	0.069	0.550
	Normal School	0.010	0.006	0.135	0.002		0.806	0.055	1.013
	Montana Tech	0.051	0.016	0.102	0.004		1.034	0.499	1.706
	Veterans Home	-	0.000	-	0.000		0.015	-	0.016
	UM	0.000	0.003	0.000	0.000		0.220	0.001	0.224
	Total FY 2007	**$ 4.052**	**$ 1.070**	**$ 4.247**	**$ 0.078**	**$ 72.462**	**$ 5.890**	**$ 3.814**	**$ 91.613**
FY 2008									
	Common Schools	$ 3.900	$ 1.010	$ 3.201	$ 0.067	$ 75.106	$ -	$ 3.021	$ 86.305
	Capitol Building	0.063	0.013	0.472	0.001		1.381	-	1.929
	MSU Second	0.000	0.012	0.220	0.002		1.452	0.002	1.689
	Morrill	-	-	-	-		0.626	0.069	0.695
	Deaf & Blind	0.013	0.003	0.096	0.001		0.292	0.189	0.594
	Pine Hills	0.015	0.006	0.140	0.002		0.396	0.279	0.837
	Normal School	0.010	0.006	0.140	0.002		0.853	0.058	1.068
	Montana Tech	0.051	0.016	0.105	0.004		1.094	0.499	1.770
	Veterans Home	-	0.000	-	0.000		0.014	-	0.015
	UM	0.000	0.003	0.000	0.000		0.215	0.001	0.219
	Total FY 2008	**$ 4.052**	**$ 1.070**	**$ 4.374**	**$ 0.078**	**$ 75.106**	**$ 6.324**	**$ 4.118**	**$ 95.122**
FY 2009									
	Common Schools	$ 4.000	$ 1.036	$ 3.264	$ 0.067	$ 73.979	$ -	$ 3.012	$ 85.358
	Capitol Building	0.064	0.013	0.512	0.001		1.380	-	1.970
	MSU Second	0.000	0.013	0.218	0.002		1.435	0.002	1.670
	Morrill	-	-	-	-		0.616	0.067	0.683
	Deaf & Blind	0.014	0.003	0.199	0.001		0.287	0.179	0.683
	Pine Hills	0.015	0.006	0.144	0.002		0.394	0.264	0.825
	Normal School	0.010	0.006	0.144	0.002		0.829	0.057	1.047
	Montana Tech	0.052	0.017	0.124	0.004		1.131	0.498	1.826
	Veterans Home	-	0.000	-	0.000		0.014	-	0.015
	UM	0.000	0.003	0.000	0.000		0.212	0.001	0.216
	Total FY 2009	**$ 4.155**	**$ 1.097**	**$ 4.605**	**$ 0.078**	**$ 73.979**	**$ 6.298**	**$ 4.081**	**$ 94.294**

Data Sources

Information on trust lands income through FY 2006 is derived from SABHRS and DNRC annual reports. Information on projected timber revenues, land lease income, and other income sources came from the DNRC Trust Lands Management Division Staff. Trust fund balances and interest rates through FY 2006 are from SABHRS and from monthly data supplied by the Board of Investments. Coal price increases are from Global Insight's October 2006 forecast. Montana oil and natural gas prices and production are from the November 2006 OBPP oil and gas production tax forecast.

TOBACCO SETTLEMENT TRUST INTEREST

Revenue Description

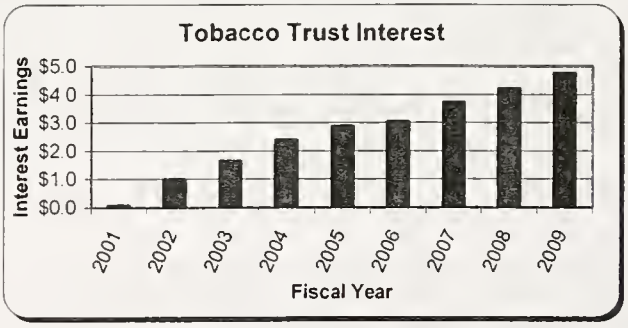
Montana receives payments from a multi-state settlement with tobacco companies. Forty percent of the receipts from this settlement are deposited in the tobacco settlement trust. Ten percent of interest earnings from this trust fund are retained in the trust and 90% are deposited in a special revenue account and may be appropriated by the Legislature for tobacco prevention and health care programs (17-6-603, MCA).

Historical and Projected Revenue

The tobacco settlement trust was established in January 2001 following passage of Constitutional Amendment 35 in the November 2000 election. Table 1 shows actual distributable interest for FY 2001 through FY 2006 and forecast distributable interest for FY 2007 through FY 2009. Distributable interest is the portion of tobacco trust interest that is not retained by the trust.

Table 1
Tobacco Settlement Trust Distributable Interest
($ millions)

Fiscal Year	Interest Revenue	Percent change
A 2001	$0.071	N/A
A 2002	$1.015	1326.69%
A 2003	$1.647	62.22%
A 2004	$2.403	45.88%
A 2005	$2.882	19.95%
A 2006	$3.049	5.78%
F 2007	**$3.731**	**22.39%**
F 2008	**$4.222**	**13.16%**
F 2009	**$4.758**	**12.68%**



Tobacco trust interest revenue is growing rapidly because the trust fund balance is growing with the settlement payments made each year. Interest revenue is forecast to be $3.731 million in FY 2007, $4.222 million in FY 2008, and $4.758 million in FY 2009.

Forecast Methodology and Projection Calculation

There are three steps to forecasting interest revenue from the tobacco trust fund.

1. The annual average balance of the fund is projected.
2. The annual average balance by investment type is projected.
3. Interest earnings are forecast by multiplying the balance by the interest rate.

Tobacco Trust Fund Balance

The fund balance increases yearly as 40% of the tobacco settlement payments and 10% of the interest earned on the fund balance are deposited into the trust fund.

Table 2 shows the actual and projected average fund balance, tobacco settlement deposits, retained interest earnings, and total fund deposits from FY 2001 through FY 2009.

Table 2
Tobacco Trust Fund Balance
($ millions)

	Balance	Deposits				
Fiscal Year	Average Fund Balance	Tobacco Settlement Deposits		Retained Interest Earnings		Total Fund Deposits
A 2001	$7.810	$10.651	+	$0.099	=	$10.749
A 2002	$14.565	$12.432	+	$0.022	=	$12.454
A 2003	$27.182	$12.466	+	$0.161	=	$12.627
A 2004	$38.724	$10.669	+	$0.289	=	$10.958
A 2005	$49.693	$10.828	+	$0.320	=	$11.149
A 2006	$60.629	$9.940	+	$0.339	=	$10.279
F 2007	**$70.988**	**$10.353**	**+**	**$0.376**	**=**	**$10.729**
F 2008	**$82.528**	**$13.339**	**+**	**$0.464**	**=**	**$13.803**
F 2009	**$96.370**	**$13.365**	**+**	**$0.524**	**=**	**$13.888**

The average fund balance is projected to be $70.988 million in FY 2007, $82.528 million in FY 2008, and $96.370 million in FY 2009. The increase in the average fund balance is due to the deposits into the fund. However, the change in the fund balance from year to year does not match total deposits exactly because the fund balance shown is the average fiscal year balance. Total fund deposits are the sum of the settlement deposits and the retained interest earnings, and deposits are projected to be $10.729 million in FY 2007, $13.803 million in FY 2008, and $13.888 million in FY 2009.

Tobacco Trust Balance by Investment Type

The fund balance is invested in the short term investment pool (STIP) and the trust fund bond pool (TFBP). STIP and TFBP are managed by the Board of Investments and forecasts of annual rates of return for STIP and TFBP are explained in the *Interest Rate Introduction*.

Table 3 shows actual and projected investment of the fund balance for each investment type from FY 2001 through FY 2009. In FY 2007 through FY 2009, 2% of the trust fund balance is expected to be invested in STIP while the remaining 98% is to be invested in TFBP.

Table 3
Tobacco Trust Fund
Average Balance by Investment Type
($ millions)

Fiscal Year	STIP Balance	% Total	TFBP Balance	% Total	Average Balance
A 2001	$1.750	22%	$6.060	78%	$7.810
A 2002	$1.304	9%	$13.262	91%	$14.565
A 2003	$1.323	5%	$25.859	95%	$27.182
A 2004	$1.141	3%	$37.583	97%	$38.724
A 2005	$1.675	3%	$48.018	97%	$49.693
A 2006	$1.799	3%	$58.830	97%	$60.629
F 2007	**$1.380**	**2%**	**$69.608**	**98%**	**$70.988**
F 2008	**$1.774**	**2%**	**$80.754**	**98%**	**$82.528**
F 2009	**$1.795**	**2%**	**$94.575**	**98%**	**$96.370**

Tobacco Trust Interest Earnings

Tobacco trust interest earnings are projected by multiplying the projected balance by the projected interest rate for each investment type. Table 4 shows actual and projected interest income and interest rate for each investment type from FY 2001 through FY 2009.

Table 4
Tobacco Trust Fund
Interest Income and Interest Rate
($ millions)

Fiscal Year	STIP Income	Interest Rate	TFBP Income	Interest Rate	Total Income	Interest Rate
A 2001	$0.051	6.98%	$0.189	7.47%	$0.240	3.07%
A 2002	$0.012	0.96%	$0.949	7.16%	$0.968	6.64%
A 2003	$0.014	1.06%	$1.816	7.02%	$1.830	6.73%
A 2004	$0.008	0.70%	$2.662	7.08%	$2.670	6.89%
A 2005	$0.037	2.19%	$3.166	6.59%	$3.202	6.44%
A 2006	$0.067	3.71%	$3.321	5.64%	$3.388	5.59%
F 2007	**$0.073**	**5.27%**	**$4.073**	**5.85%**	**$4.146**	**5.84%**
F 2008	**$0.083**	**4.69%**	**$4.608**	**5.71%**	**$4.692**	**5.68%**
F 2009	**$0.086**	**4.77%**	**$5.201**	**5.50%**	**$5.286**	**5.49%**

The STIP and TFBP interest rates are expected to change slightly from FY 2007 through FY 2009. Total tobacco trust fund income increases each year from FY 2007 through FY 2009 because the increasing trust fund balance offsets the lower interest

rates. Total interest earnings are forecast to be $4.146 million in FY 2007, $4.692 million in FY 2008, and $5.286 million in FY 2009.

Table 5 summarizes actual and projected trust fund balances, interest rates, interest earnings, and allocation of interest earnings from FY 2001 through FY 2009. Ten percent of tobacco trust earnings are retained by the trust and 90% are allocated to a state special revenue account. This ratio was not maintained exactly for each year in FY 2001 through FY 2004 due to timing of payments, but the ratio was maintained for FY 2001 and FY 2002 added together and FY 2003 and FY 2004 added together.

Table 5
Tobacco Trust Fund
Fund Balance, Rate, Interest Earnings, and Allocation
($ millions)

	Fund Balance, Rate, and Earnings						Allocation		
Fiscal Year	Tobacco Trust Fund Balance		Tobacco Trust Rate of Return		Tobacco Trust Interest Earnings		Tobacco Trust Retained Earnings		State Special Revenue Account
A 2001	$7.810	x	3.07%	=	$0.240		$0.099		$0.071
A 2002	$14.565	x	6.64%	=	$0.968		$0.022		$1.015
A 2003	$27.182	x	6.73%	=	$1.830		$0.161		$1.647
A 2004	$38.724	x	6.89%	=	$2.670		$0.289		$2.403
A 2005	$49.693	x	6.44%	=	$3.202		$0.320		$2.882
A 2006	$60.629	x	5.59%	=	$3.388		$0.339		$3.049
F 2007	**$70.988**	**x**	**5.84%**	**=**	**$4.146**		**$0.415**		**$3.731**
F 2008	**$82.528**	**x**	**5.68%**	**=**	**$4.692**		**$0.469**		**$4.222**
F 2009	**$96.370**	**x**	**5.49%**	**=**	**$5.286**		**$0.529**		**$4.758**

Tobacco trust net interest earnings allocated to the state special revenue account are forecast to be $3.731 million in FY 2007, $4.222 million in FY 2008, and $4.758 million in FY 2009.

Data Sources

Tobacco trust balances and earnings are from the Board of Investments and SABHRS. Projections of tobacco settlement deposits are from the *Tobacco Settlement Revenue* estimation. Projections of the STIP and TFBP interest rates are from *Interest Rate Introduction.*

INTRODUCTION TO THE COAL TRUSTS

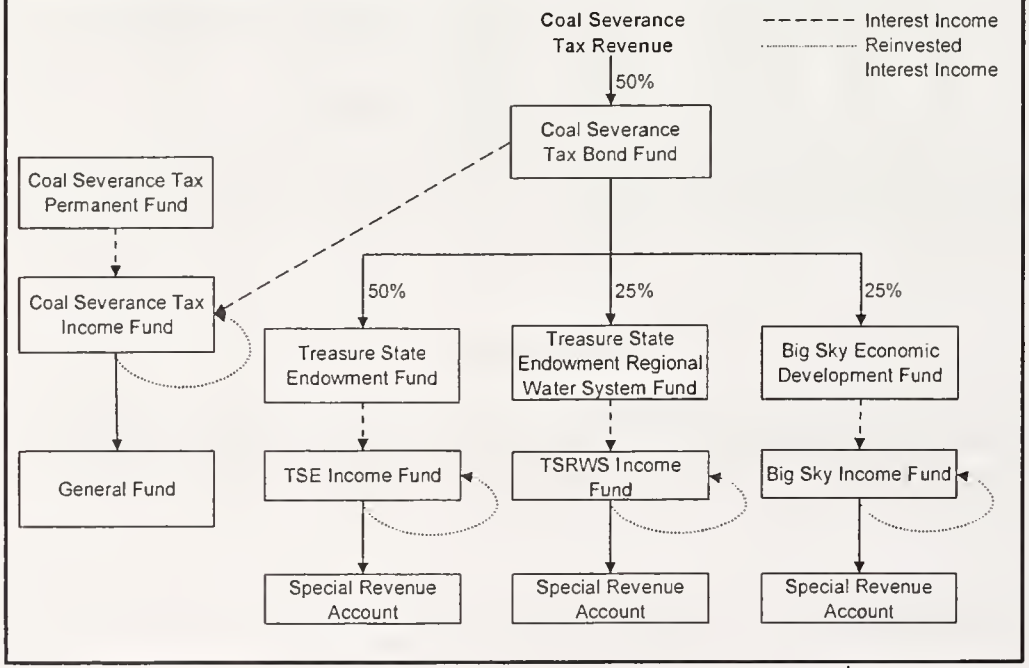
Revenue Description

Article IX, Section 5 of the Montana Constitution established a permanent trust fund into which at least half of coal severance tax revenue must be deposited as principal. Interest and income from this principal may be appropriated, but the principal itself is inviolate unless approved by ¾ of the members of each house in the legislature. Under current law, 50% of coal severance tax revenue is deposited in the trust fund, which is divided into the following permanent funds. (17-5-703, MCA)

- coal severance tax bond fund
- coal severance tax permanent fund
- treasure state endowment fund
- treasure state endowment regional water system fund
- big sky economic development fund

The coal severance tax revenue allocated to the trust is initially deposited in the coal severance tax bond fund. The revenue is then distributed to the various accounts as shown in Figure 1.

Figure 1: Coal Severance Tax Distribution



Coal Severance Tax Bond Fund

The coal severance tax revenue deposited into the coal severance tax bond fund (bond fund) secures state issued bonds, called coal severance tax bonds. The tax bonds are issued to finance loans through the Department of Natural Resources and Conservation (DNRC). The Department of Revenue (DOR) administers the bond fund, and at the beginning of a fiscal year, DNRC informs DOR of the amount necessary to meet all principal and interest payments on coal severance tax bonds in the next twelve months. This amount is maintained as a reserve balance in the bond fund. The reserve balance in the bond fund averaged $9.613 million from FY 2003 through FY 2005. The reserve balance in FY 2006 is $11.493 million.

A portion of the reserve balance in the bond fund is invested in the short term investment pool (STIP). This investment averages about $6 million per year and the interest earnings are deposited in the coal severance tax income fund. The coal severance tax income fund balance is transferred monthly to the general fund, but the balance is invested in STIP during the interim, with the reinvested interest income returning to the fund.

The coal severance tax revenue that is not reserved in the bond fund is allocated 50% to the treasure state endowment fund, 25% to the treasure state endowment regional water system fund, and 25% to the big sky economic development fund.

Coal Severance Tax Permanent Fund

The coal severance tax permanent fund (permanent fund) is the original coal tax trust fund. The permanent fund does not currently receive any coal severance tax revenue, but it earns interest income. The permanent fund balance in FY 2006 was $532 million and 31% was invested in loans, 8% was invested in STIP, and the remaining 61% was invested in TFBP. The interest earnings from the permanent fund are deposited into the coal severance tax income fund.

Treasure State Endowment Fund

The treasure state endowment (TSE) fund is used for local government projects improving drinking water systems, wastewater treatment facilities, sewer systems, solid waste disposal systems, and bridges.

The TSE fund receives 50% of the coal severance tax transfers from the bond fund, or about 25% of coal severance tax revenue. The fund balance at the end of FY 2006 was $136 million, with 93% of the balance invested in TFBP, 5% invested in loans, and 1% invested in STIP. The interest income from the TSE fund is deposited in the TSE income fund, which earns reinvested interest income from STIP investments. The

money needed for local government projects is transferred from the income fund to a special revenue account for distribution.

Treasure State Endowment Regional Water System Fund

The treasure state endowment regional water system fund (TSRWS) provides funding for regional water projects. Funds may be used to match funds for construction of water systems, pay debt service on water system bond issues, pay administrative expenses of state and local entities, and provide interim funding to state or local entities pending receipt of grants or loans.

TSRWS receives 25% of the coal severance tax transfers from the bond fund, or about 12.5% of coal severance tax receipts. The fund balance at the end of FY 2006 was $27 million, which was invested 97% in TFBP and 3% in STIP. The interest income from TSRWS is deposited in the TSRWS income fund, which is invested in STIP. Funds needed for projects are transferred to a special revenue account for distribution.

Big Sky Economic Development Fund

On July 8, 2005, $20 million was taken from the permanent fund to create the big sky economic development (big sky) fund. The interest income from the big sky fund provides financial assistance for economic development to local governments and certified regional development corporations.

The big sky fund will receive 25% of the coal severance tax transfers from the bond fund. The year end fund balance in FY 2006 was $24 million. This balance was invested 98% in TFBP and 2% in STIP. Income from this investment is transferred to a state special revenue account to fund program expenditures. Income not needed for program expenditures remains in the big sky fund and earns interest.

Data Sources

Trust fund balances and earnings were obtained from the Board of Investments and the state accounting system. Establishment and legal description of the coal trusts is discussed in 17-5-701 through 17-5-731, MCA. The Department of Natural Resources and Conservation Annual Report (2005) provided information on the coal severance tax bond fund and debt service account.

TREASURE STATE ENDOWMENT FUND INTEREST

Revenue Description

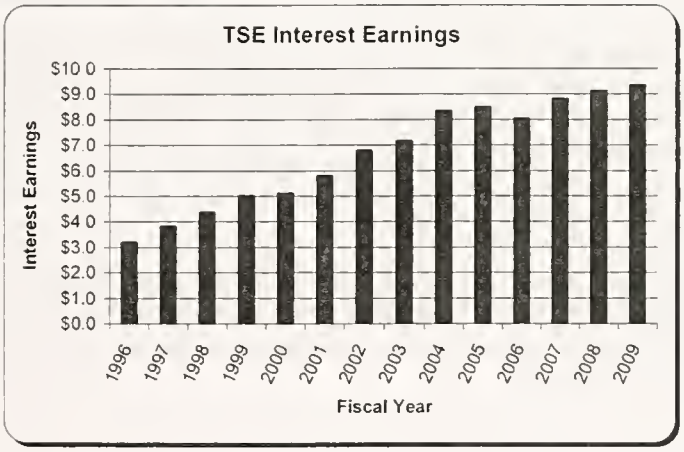
Article IX, Section 5 of the Montana Constitution established a permanent trust fund into which at least half of coal severance tax revenue must be deposited. The trust fund is divided into several funds with different purposes, including the treasure state endowment (TSE) fund (17-5-703, MCA). Interest earnings from the TSE fund are used for local government projects (90-6-701, MCA).

Projected Revenue

Table 1 shows actual TSE fund interest earnings from FY 1996 through FY 2006 and forecast interest earnings from FY 2007 through FY 2009.

Table 1
Treasure State Endowment Fund Interest Earnings
($ millions)

Fiscal Year	Interest Earnings	Percent Change
A 1996	$3.194	
A 1997	$3.824	19.73%
A 1998	$4.374	14.38%
A 1999	$5.031	15.01%
A 2000	$5.123	1.84%
A 2001	$5.802	13.24%
A 2002	$6.805	17.29%
A 2003	$7.175	5.44%
A 2004	$8.349	16.37%
A 2005	$8.482	1.58%
A 2006	$8.039	(5.22%)
F 2007	**$8.831**	**9.86%**
F 2008	**$9.136**	**3.45%**
F 2009	**$9.369**	**2.56%**



Earnings grew from FY 1996 through FY 2005, primarily due to the increased fund balance from the coal severance tax deposits. The interest rate dropped in FY 2006, resulting in a 5.22% decrease in TSE interest earnings. After the reduced earnings in FY 2006, interest income is projected to increase 9.86% in FY 2007 to $8.831 million. Earnings are projected to increase to $9.136 million in FY 2008 and $9.369 million in FY 2009, primarily due to increasing investment balances through coal tax contributions.

Forecast Methodology and Projection Calculation

There are three steps to forecasting interest earnings from the TSE fund. First, the annual average balance of the fund is projected. Second, the annual average rate of return for the fund is projected. Third, interest earnings are forecast through multiplying the average balance by the average rate of return and deducting administrative costs.

Average Fund Balance

The trust fund balance currently grows through the deposit of 25% of the coal severance tax revenue. The coal tax revenue is net of funds required by the coal tax bond pool to cover interest and principal payments on coal tax bonds.

The coal tax contributions to the TSE have varied across years. From FY 2001 to FY 2003, the trust fund received 37.5% of net coal tax collections. As shown in Table 2, annual deposits were over $10 million dollars in those years. Deposits to the trust fund fell in FY 2004 because the TSE fund allocation dropped to 25% of net coal tax collections (SB 10, 2003 Session).

Table 2 shows that the deposits are projected to be $9.464 million in FY 2007, $9.813 million in FY 2008 and $9.960 million in FY 2009 as explained in the *Coal Severance Tax* revenue estimate. Table 2 also shows that the year end balances of the trust fund will increase by the same amount, up to $165.697 million in FY 2009.

Table 2
Trust Fund Balance
($ millions)

Fiscal Year	Trust Fund Balance	Trust Fund Deposits
A 2001	$87.664	$10.733
A 2002	$99.309	$11.647
A 2003	$111.590	$12.384
A 2004	$118.207	$6.672
A 2005	$127.056	$8.803
A 2006	$136.459	$9.393
F 2007	**$145.923**	**$9.464**
F 2008	**$155.736**	**$9.813**
F 2009	**$165.697**	**$9.960**

The fund balance is invested in the short term investment pool (STIP), the trust fund bond pool (TFBP), and commercial loans. Table 3 shows actual average balances for each investment type from FY 2001 to FY 2006 and projected balances for FY 2007 through FY 2009.

Table 3
Treasure State Endowment Fund
Average Balance by Investment Type
($ millions)

Fiscal Year	Loan Balance	% Total	STIP Balance	% Total	TFBP Balance	% Total	Average Balance
A 2001	$10.833	13%	$3.038	4%	$68.134	83%	$82.005
A 2002	$19.468	21%	$1.879	2%	$72.426	77%	$93.772
A 2003	$20.655	20%	$2.424	2%	$82.004	78%	$105.082
A 2004	$15.630	14%	$2.582	2%	$97.215	84%	$115.427
A 2005	$11.582	9%	$1.957	2%	$109.431	89%	$122.970
A 2006	$6.858	5%	$1.841	1%	$123.448	93%	$132.146
F 2007	**$3.965**	**3%**	**$1.558**	**1%**	**$135.944**	**96%**	**$141.466**
F 2008	**$0.558**	**0%**	**$1.720**	**1%**	**$148.837**	**98%**	**$151.116**
F 2009	**$0.000**	**0%**	**$1.793**	**1%**	**$159.328**	**99%**	**$161.121**

The Board of Investments makes loans from the trust balance primarily to local governments for infrastructure projects. The board is currently making all new coal trust loans from the permanent fund rather than from the TSE fund. The old loans are expected to be paid off by FY 2009 and the loan balance is expected to be $3.965 million in FY 2007 and $0.558 million in FY 2008.

The percent of fund balance invested in STIP decreased from 4% of total investment in FY 2001 to 1% in FY 2006 as new loan investment decreased. The trust fund balance is invested in STIP for liquidity reasons and to finance loan commitments. As the loan commitments decrease, the fund balance invested in STIP is forecast to be about 1% for FY 2007 through FY 2009.

The percent of fund balance invested in TFBP increased from 77% of total investment in FY 2002 to 93% in FY 2006 as loan investment decreased. The fund balance invested in TFBP is projected to increase to 96% in FY 2007 and to 98% in FY 2008, and to 99% in FY 2009.

TSE Fund Income and Interest Rate

For each type of investment, there is an estimated annual interest rate on the investment. Table 4 shows actual and projected income and rate of return for each investment type in FY 2001 through FY 2009. The 5% forecast for the loan interest rate is based on the interest rates of current loans for FY 2007 through FY 2009. The forecasts of annual interest rates for the STIP and TFBP are explained in the *Interest Rate Introduction*.

Table 4
Treasure State Endowment Fund
Investment Income and Interest Rate
($ millions)

Fiscal Year	Loan Income	Interest Rate	STIP Income	Interest Rate	TFBP Income	Interest Rate	Total Income	Interest Rate
A 2001	$0.466	4.30%	$0.205	6.76%	$4.888	7.17%	$5.559	6.78%
A 2002	$1.531	7.86%	$0.043	2.29%	$5.140	7.10%	$6.713	7.16%
A 2003	$1.365	6.61%	$0.036	1.47%	$5.719	6.97%	$7.119	6.77%
A 2004	$1.334	8.53%	$0.027	1.05%	$6.930	7.13%	$8.291	7.18%
A 2005	$0.972	8.40%	$0.042	2.16%	$7.272	6.65%	$8.287	6.74%
A 2006	$0.523	7.63%	$0.076	4.11%	$7.001	5.67%	$7.600	5.75%
F 2007	**$0.214**	**5.41%**	**$0.076**	**4.86%**	**$7.989**	**5.88%**	**$8.279**	**5.85%**
F 2008	**$0.028**	**5.01%**	**$0.082**	**4.74%**	**$8.521**	**5.72%**	**$8.630**	**5.71%**
F 2009	**$0.000**	**NA**	**$0.085**	**4.72%**	**$8.780**	**5.51%**	**$8.865**	**5.50%**

Total investment income decreased to $7.600 million in FY 2006 primarily due to a lower TFBP interest rate. Investment of new coal tax deposits will offset declining interest rates for FY 2008 through FY 2009, resulting in increased projected income for FY 2007 through FY 2009. Total investment income is forecast to increase to $8.279 million in FY 2007, $8.630 million in FY 2008, and $8.865 million in FY 2009.

TSE Fund Total Income

Table 5 shows TSE fund interest earnings from FY 2001 through FY 2006 and forecast interest earnings from FY 2007 to FY 2009. TSE fund total interest earnings are the sum of TSE fund investment income and reinvested TSE income fund earnings, less administrative expense.

The reinvested income is generated from the TSE fund interest earnings, which are deposited into the Treasure State income fund. Each biennium the Legislature appropriates funds for projects from the income fund. Money in the income fund that is not appropriated for use on projects is retained by the fund. The

Table 5
TSE Fund Interest Earnings
($ millions)

Fiscal Year	TSE Fund Earnings		Reinvested Income Fund Earnings		Admin Costs		Total Interest Earnings	Percent Change
A 2001	$5.559	+	$0.256	+	($0.014)	=	$5.802	
A 2002	$6.713	+	$0.124	+	($0.033)	=	$6.805	17.29%
A 2003	$7.119	+	$0.091	+	($0.034)	=	$7.175	5.44%
A 2004	$8.291	+	$0.095	+	($0.037)	=	$8.349	16.37%
A 2005	$8.287	+	$0.220	+	($0.025)	=	$8.482	1.58%
F 2006	$7.600	+	$0.452	+	($0.013)	=	$8.039	(5.22%)
F 2007	**$8.279**	**+**	**$0.561**	**+**	**($0.009)**	**=**	**$8.831**	**9.86%**
F 2008	**$8.630**	**+**	**$0.507**	**+**	**($0.001)**	**=**	**$9.136**	**3.45%**
F 2009	**$8.865**	**+**	**$0.504**	**+**	**$0.000**	**=**	**$9.369**	**2.56%**

income fund balance is reinvested in STIP and the interest earnings are deposited back into the income fund. Interest earnings from reinvestment of income fund balances are projected to decrease yearly due to the decline in STIP interest rates. The reinvested income is projected by multiplying the projected income fund balance by the projected STIP rate. Reinvested income is projected to be $0.561 million in FY 2007, $0.507 million in FY 2008, and $0.504 million in FY 2009.

Administrative expenses are charged to the fund for the cost of administering the loan program. They will decrease as loan activity is phased out.

The TSE fund interest earnings decreased 5% in FY 2006 to $8.039 million due to the 1% decrease in the TFBP rate from FY 2005. Total interest earnings are projected to be $8.831 million in FY 2007, $9.136 million in FY 2008, and $9.369 million in FY 2009 as the fund balance increases with additional coal tax contributions.

HJR 2 Variables

Table 6 shows the average fund balance, rate of return, and interest earnings from the TSE fund. The average fund balance is multiplied by the average rate of return to get total interest earnings. TSE fund interest earnings are projected to be $8.831 million in FY 2007, $9.136 million in FY 2008, and $9.369 million in FY 2009.

Table 6
TSE Balance, Rate of Return and Interest Earnings
($ millions)

Fiscal Year	Average Balance		Rate of Return		Interest Earnings
A 2001	$82.005	X	7.07%	=	$5.802
A 2002	$93.772	X	7.26%	=	$6.805
A 2003	$105.082	X	6.83%	=	$7.175
A 2004	$115.427	X	7.23%	=	$8.349
A 2005	$122.970	X	6.90%	=	$8.482
A 2006	$132.146	X	6.08%	=	$8.039
F 2007	**$141.466**	**X**	**6.24%**	**=**	**$8.831**
F 2008	**$151.116**	**X**	**6.05%**	**=**	**$9.136**
F 2009	**$161.121**	**X**	**5.81%**	**=**	**$9.369**

Data Sources

Fund balances and investment earnings were obtained from the Board of Investments and SABHRS.

TREASURE STATE ENDOWMENT REGIONAL WATER SYSTEM FUND INTEREST

Revenue Description

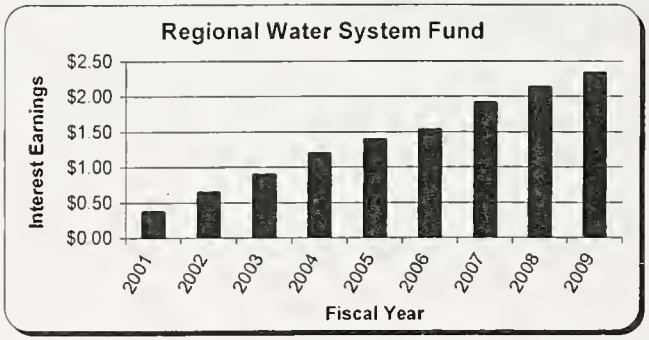
Article IX, Section 5 of the Montana Constitution established a permanent trust fund into which at least half of coal severance tax revenue must be deposited. The trust fund is divided into several funds with different purposes, including the treasure state endowment regional water system (TSRWS) fund (17-5-703, MCA). Interest earnings from the TSRWS fund are used for regional water systems (90-6-715, MC).

Projected Revenue

Table 1 shows actual interest earnings for the TSRWS fund for FY 2001 through FY 2006 and forecast earnings for FY 2007 through FY 2009.

Table 1
Treasure State Endowment Regional Water System Fund
Interest Earnings
($ millions)

Fiscal Year	Interest Earnings	Percent Change
A 2001	$0.370	NA
A 2002	$0.643	73.74%
A 2003	$0.894	39.05%
A 2004	$1.201	34.31%
A 2005	$1.396	16.26%
A 2006	$1.527	9.39%
F 2007	**$1.917**	**25.52%**
F 2008	**$2.131**	**11.16%**
F 2009	**$2.334**	**9.53%**



Interest earnings grew consistently from FY 2001 through FY 2006 due to contributions from the coal severance tax. FY 2006 interest earnings grew more slowly, with a 9.39% increase, than previous years because the interest rates were lower. Earnings are projected to increase through FY 2009 because of increasing fund balances from the coal tax contributions. Forecast interest earnings are $1.917 million in FY 2007, $2.131 million in FY 2008, and $2.334 million in FY 2009.

Forecast Methodology and Projection Calculation

The following steps are taken to forecast the interest earnings from the TSRWS fund. First, the annual average balance of the fund is projected. Second, the annual average rate of return is projected. Third, interest earnings are forecast through multiplying the average balance by the average rate of return.

Average Fund Balance

The fund balance currently grows through deposit of coal tax revenue into the fund. The tax revenue is net of any revenue needed by the coal tax bond fund to pay principal and interest on coal tax bonds. Under current law, the TSRWS fund will receive 12.5% of net coal tax revenue through FY 2016.

Table 2 shows actual and projected year end fund balances and fund deposits from FY 2003 through FY 2009. The average fund balance is forecast based on projected coal severance tax revenue. The TSRWS average fund balance is expected to be $32.129 million in FY 2007, $37.036 million in FY 2008, and $42.016 million in FY 2009.

Table 2
TSRWS Fund Balance
($ millions)

Fiscal Year	TSRWS Fund Balance	TSRWS Fund Deposits
A 2003	$14.963	$4.093
A 2004	$16.810	$3.336
A 2005	$18.289	$4.402
A 2006	$27.397	$4.697
F 2007	**$32.129**	**$4.732**
F 2008	**$37.036**	**$4.906**
F 2009	**$42.016**	**$4.980**

Table 3 shows actual and projected average TSRWS fund balances by investment type for FY 2003 through FY 2009. The fund balance is invested in the short term investment pool (STIP) and the trust fund bond pool (TFBP). From FY 2003 through FY 2006 the average fund balance invested in STIP was between 2% and 4% of total investment. New coal tax deposits are typically invested in STIP for a month or two before they are transferred to TFBP. As new coal tax deposits become smaller relative to the total fund balance, the STIP portion of total in-vestment should decrease. The average balance invested in STIP is forecast to be 3% in FY 2007 and 2% in FY 2008 and FY 2009.

Table 3
TSRWS Fund Average Balance by Investment Type
($ millions)

Fiscal Year	STIP Balance	% Total	TFBP Balance	% Total	Average Balance
A 2003	$0 530	4%	$12.275	96%	$12.806
A 2004	$0.391	2%	$16.419	98%	$16.810
A 2005	$0.528	3%	$20.127	97%	$20.655
A 2006	$0.725	3%	$24.523	97%	$25.248
F 2007	**$0.754**	**3%**	**$29.147**	**97%**	**$29.901**
F 2008	**$0.829**	**2%**	**$33.897**	**98%**	**$34.726**
F 2009	**$0.870**	**2%**	**$38.858**	**98%**	**$39.728**

TSRWS Fund Rate of Return

The forecasts of annual interest rates for the STIP and the TFBP are explained in the *Interest Earnings Introduction.*

TSRWS Fund Income

TSRWS fund investment income is projected by multiplying the projected average fund balance by the projected interest for each type of investment. Table 4 shows actual and projected income and rates for each investment type from FY 2003 through FY 2009.

Table 4
TSRWS Fund
Investment Income and Rate
($ millions)

Fiscal Year	STIP Income	STIP Rate	TFBP Income	TFBP Rate	Total Income	Total Rate
A 2003	$0.009	1.65%	$0.865	7.04%	$0.873	6.82%
A 2004	$0.004	1.03%	$1.174	7.15%	$1.178	7.01%
A 2005	$0.012	2.28%	$1.340	6.66%	$1.352	6.55%
A 2006	$0.031	4.27%	$1.391	5.67%	$1.422	5.63%
F 2007	**$0.037**	**4.90%**	**$1.714**	**5.88%**	**$1.751**	**5.85%**
F 2008	**$0.039**	**4.73%**	**$1.942**	**5.73%**	**$1.981**	**5.70%**
F 2009	**$0.041**	**4.72%**	**$2.143**	**5.52%**	**$2.185**	**5.50%**

Total investment income increased in FY 2006 to $1.422 million as the fund balance increase offset the interest rate decrease. Income is forecast to continue increasing as the fund balance grows and interest rates stabilize. The projected investment income is $1.751 million in FY 2007, $1.981 million in FY 2008, and $2.185 million in FY 2009.

Total TSRWS fund interest earnings are the sum of TSRWS fund investment income and reinvested TSRWS income fund earnings. TSWRS investment earnings are held in the TSRWS income fund. Each biennium, the Legislature approves a list of projects for funding. A portion of the income fund balance is periodically transferred to a state special revenue account for use on approved projects. Money in the income fund that is not appropriated for use on these projects is reinvested in STIP, and the interest earnings are retained in the fund. Reinvested income is forecast by multiplying the projected average balance by the projected STIP interest rate. As shown in Table 5, reinvestment income is projected to be $0.166 million in FY 2007, and $0.150 million in FY 2008 and FY 2009.

Table 5 also illustrates total TSRWS fund interest earnings from FY 2003 through FY 2009. TSRWS fund interest earnings increased only 9% in FY 2006 due to lower interest rates. Interest earnings are expected to continue increasing because of increasing fund balance. The projected interest earnings are $1.917 million in FY 2007, $2.131 million in FY 2008, $2.334 in FY 2009.

Table 5
TSRWS Fund Interest Earnings
($ millions)

Fiscal Year	TSRWS Fund Earnings		Reinvested Income Fund Earnings		Total Interest Earnings	Percent Change
A 2003	$0.873	+	$0.021	=	$0.894	39%
A 2004	$1.178	+	$0.023	=	$1.201	34%
A 2005	$1.352	+	$0.044	=	$1.396	16%
A 2006	$1.422	+	$0.106	=	$1.527	9%
F 2007	**$1.751**	**+**	**$0.166**	**=**	**$1.917**	**26%**
F 2008	**$1.981**	**+**	**$0.150**	**=**	**$2.131**	**11%**
F 2009	$2.185	+	$0.150	=	$2.334	10%

HJR 2 Variables

Table 6 shows TSRWS fund balances, rate of return, and interest earnings from FY 2003 through FY 2009. The average fund balance is multiplied by the average rate of return to get interest earnings. TSRWS fund interest earnings are projected to be $1.917 million in FY 2007, $2.131 million in FY 2008, and $2.334 million in FY 2009.

Table 6
TSRWS Fund Balance and Rate
($ millions)

Fiscal Year	Average Balance		Rate of Return		Interest Earnings
A 2003	$12.806	X	6.98%	=	$0.894
A 2004	$16.810	X	7.14%	=	$1.201
A 2005	$20.655	X	6.76%	=	$1.396
A 2006	$25.248	X	6.05%	=	$1.527
F 2007	**$29.901**	**X**	**6.41%**	**=**	**$1.917**
F 2008	**$34.726**	**X**	**6.14%**	**=**	**$2.131**
F 2009	**$39.728**	**X**	**5.88%**	**=**	**$2.334**

Data Sources

Fund balances and investment earnings were obtained from the Board of Investments and SABHRS.

BIG SKY ECONOMIC DEVELOPMENT FUND INTEREST

Revenue Description

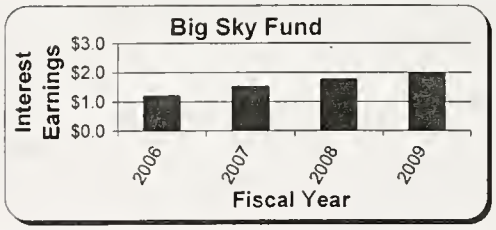
Article IX, Section 5 of the Montana Constitution established a permanent trust fund into which at least half of coal severance tax revenue must be deposited. The trust fund is divided into several funds with different purposes, including the big sky economic development (big sky) fund. The big sky fund was established in July 2005 with a $20 million transfer from the coal tax permanent fund (HB 249, 2005 Session). Income from the big sky fund is used to promote economic development.

Projected Revenue

Table 1 shows actual interest earnings for the big sky fund in FY 2006 and forecast interest earnings for FY 2007 through FY 2009.

Table 1
Big Sky Economic Development Fund
Interest Earnings
($ millions)

Fiscal Year	Interest Earnings	Percent Change
A 2006	$1.194	NA
F 2007	**$1.508**	**26%**
F 2008	**$1.745**	**16%**
F 2009	**$1.958**	**12%**



The big sky fund earned $1.194 million in interest income during FY 2006. Projected increases in the fund balance will result in increased earnings each year from FY 2007 through FY 2009.

Forecast Methodology and Projection Calculation

Forecast interest earnings for the big sky fund are calculated as follows. First, the annual average balance of the fund is projected. Second, the annual average rate of return of the fund is projected. Third, interest earnings are forecast by multiplying average balance by the average rate of return.

Average Fund Balance

The fund balance currently grows through the deposit of 12.5% of coal severance tax revenue. The coal tax revenue is net the amount required by the coal tax bond fund to pay principal and interest on coal tax bonds.

In FY 2006, $3.605 million in coal severance tax revenue was deposited into the big sky fund. This is shown in Table 2, along with projected big sky fund balances and deposits from FY 2007 through FY 2009. The big sky fund year end balance is forecast to be $28.337 million in FY 2007, $33.244 million in FY 2008, and $38.224 million in FY 2009.

Table 2
Big Sky Fund Balance
($ millions)

Fiscal Year	Fund Balance	Fund Deposits
A 2006	$23.605	$3.605
F 2007	**$28.337**	**$4.732**
F 2008	**$33.244**	**$4.906**
F 2009	**$38.224**	**$4.980**

The average fund balance for the year is used to project earnings. Table 3 shows the average fund balance by investment type. In FY 2006, 2% of the fund balance is invested in the short term investment pool (STIP) and 98% is invested in the trust fund bond pool (TFBP). The fund balance is expected to be invested this way through FY 2009. The total average fund balance is projected to be $26.109 million in FY 2007, $30.934 in FY 2008 and $35.936 in FY 2009.

Table 3
Big Sky Economic Development Fund
Average Balance by Investment Type
($ millions)

Fiscal Year	STIP Balance	% Total	TFBP Balance	% Total	Average Balance
A 2006	$0.438	2%	$21.053	98%	$21.491
F 2007	**$0.614**	**2%**	**$25.495**	**98%**	**$26.109**
F 2008	**$0.634**	**2%**	**$30.300**	**98%**	**$30.934**
F 2009	**$0.646**	**2%**	**$35.290**	**98%**	**$35.936**

Big Sky Fund Rate of Return

The forecasts for annual interest rate for the STIP and the TFBP are explained in the *Interest Rate Introduction*. The actual and forecasted rates of return for FY 2006 through FY 2009 are shown in Table 4.

Big Sky Fund Income

Big sky fund investment income is projected by multiplying the projected average balance by the projected interest rate for each type of investment. Table 4 shows actual and projected income by investment type for FY 2006 through FY 2009.

The STIP interest rate is projected to increase in FY 2007 and then decrease in FY 2008 and FY 2009. Investment income from STIP is projected to increase to $0.030 million in FY 2007 and FY 2008, to increase slightly in FY 2009 to $0.031 million.

Table 4
Big Sky Economic Development Fund
Investment Income and Yield
($ millions)

Fiscal Year	STIP Income	STIP Yield	TFBP Income	TFBP Yield	Total Income	Total Yield
A 2006	$0.019	4.36%	$1.174	5.58%	$1.194	5.55%
F 2007	**$0.030**	**4.83%**	**$1.478**	**5.80%**	**$1.508**	**5.77%**
F 2008	**$0.030**	**4.73%**	**$1.715**	**5.66%**	**$1.745**	**5.64%**
F 2009	**$0.031**	**4.72%**	**$1.927**	**5.46%**	**$1.958**	**5.45%**

Though the TFPB rate is falling slightly, increases in the fund balance from coal tax contributions offset the rate decline. TFBP income is projected to continue increasing through FY 2009. Total income is projected to increase to $1.508 million in FY 2007, $1.745 million in FY 2008, and $1.958 million in FY 2009.

HJR 2 Variables

Table 5 shows actual and projected fund balances, rates of return, and interest earnings for FY 2006 through FY 2009.

The deposits into the big sky trust fund in FY 2007 through FY 2009 offset the projected interest rate decreases, thus interest earnings are expected to increase each year. Projected interest earnings are $1.508 million in FY 2007, $1.745 million in FY 2008, and $1.958 million in FY 2009.

Table 5
Big Sky Fund Balance and Yield
($ millions)

Fiscal Year	Average Balance		Rate of Return		Interest Earnings
A 2006	$21.491	X	5.55%	=	$1.194
F 2007	**$26.109**	**X**	**5.77%**	**=**	**$1.508**
F 2008	**$30.934**	**X**	**5.64%**	**=**	**$1.745**
F 2009	**$35.936**	**X**	**5.45%**	**=**	**$1.958**

Data Sources

Fund balances and investment earnings were obtained from the Board of Investments and SABHRS.

RESOURCE INDEMNITY TAX

Revenue Description

Title 15, Chapter 38, MCA, created a resource indemnity and groundwater assessment tax. The tax (also called the resource indemnity tax or RIT) funds the resource indemnity trust. The tax also provides revenues for groundwater assessment and resource development programs to benefit the state and its citizens. The purpose of the trust and other programs is to indemnify the citizens of Montana for depletion of the state's natural resources and for environmental damage caused by mineral development.

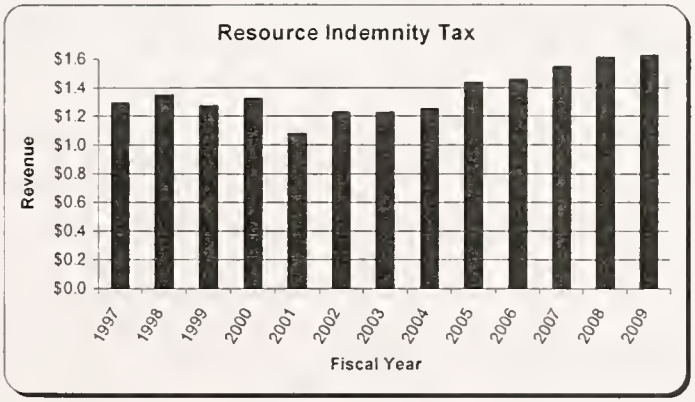
Until the resource indemnity trust fund balance reached $100 million, 50% of the resource indemnity tax was deposited in the trust fund. The fund balance reached $100 million in December 2001 and this allocation ceased. Under current law the tax is deposited into several state special revenue accounts.

Historical and Projected Revenue

Table 1 shows actual tax revenue from the resource indemnity tax from FY 1997 through FY 2006 and forecast revenue for FY 2007 through FY 2009.

Table 1
Resource Indemnity Tax Revenue
($ millions)

Fiscal Year	Tax Revenue	Percent Change
A 1997	$1.294	
A 1998	$1.348	4.17%
A 1999	$1.272	(5.66%)
A 2000	$1.323	4.04%
A 2001	$1.077	(18.60%)
A 2002	$1.224	13.67%
A 2003	$1.226	0.11%
A 2004	$1.251	2.03%
A 2005	$1.436	14.86%
A 2006	$1.456	1.39%
F 2007	**$1.548**	**6.28%**
F 2008	**$1.612**	**4.15%**
F 2009	**$1.678**	**4.06%**



The revenue varies due to fluctuations in mineral prices and production. FY 2006 revenue increased to $1.456 million, a $0.020 million increase from FY 2005. Revenues are expected to increase more through FY 2009 as coal production in

Montana is expected to increase. Forecast revenue is expected to be $1.548 million in FY 2007, $1.612 million in FY 2008, and $1.678 million in FY 2009.

Forecast Methodology and Projection Calculation

The resource indemnity tax is levied on the value of mineral production each calendar year. Producers of the minerals pay the tax once in the following year. About 80% of tax receipts are from coal production. Producers of metals, talc, limestone, sand and gravel, vermiculite, gems, and other non-metalliferous minerals pay most of the remainder. Metal producers pay the resource indemnity tax only if they do not pay the metalliferous mines tax because of small production.

Tax revenues from coal production were estimated using production and price estimates from the coal severance tax revenue forecast. The annual tax is $25 per producer, plus 0.4% of the gross value of production in excess of $6,250.

As shown in Table 2, tax collections from coal decreased slightly in FY 2006 to $1.087 million due to decreased coal production. Production of coal is projected to increase through FY 2009 so the expected coal tax collections are $1.178 million in FY 2007, $1.242 million in FY 2008, and $1.308 million in FY 2009.

Tax revenues from metal production and other mineral production are forecast to equal FY 2006 revenues from metals and other minerals.

Table 2
Resource Indemnity Tax
($ millions)

Fiscal Year	Coal	Other Minerals	Total
A 2001	$0.952	$0.125	$1.077
A 2002	$0.999	$0.225	$1.224
A 2003	$0.963	$0.262	$1.226
A 2004	$0.966	$0.285	$1.251
A 2005	$1.109	$0.328	$1.436
A 2006	$1.087	$0.370	$1.456
F 2007	**$1.178**	**$0.370**	**$1.548**
F 2008	**$1.242**	**$0.370**	**$1.612**
F 2009	**$1.308**	**$0.370**	**$1.678**

Allocation of Resource Indemnity Tax Revenue

The resource indemnity tax revenue is allocated to several state special revenue accounts. These include the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) match debt service fund (75-10-622, MCA), the ground water assessment account (85-2-905, MCA), the reclamation and development grants account (90-2-1104, MCA), the natural resource workers' tuition scholarship account (39-10-106, MCA), and the orphan share account (75-10-743, MCA). The allocations are made in the specific order described below.

First, the CERCLA match debt service fund is allocated the amount required to pay the principal, redemption premiums, and interest on CERCLA bonds, after transfers from the CERCLA cost recovery account (75-10-631, MCA). In FY 2006, both the FY 2006

and FY 2007 requirements, totaling $0.188 million, were allocated to the CLERCA fund. For FY 2007 through FY 2009 the amount allocated to CLERCA is the amount necessary for payments in the following fiscal year. According to the Department of Environmental Quality, $0.264 million will be allocated in FY 2007, $0.273 million in FY 2008, and $0.272 million in FY 2009. The projected increase is due to an additional CLERCA bond made during FY 2006.

Second, revenue required to increase the groundwater assessment account balance to $666,000 is deposited into that account, up to a maximum of $366,000. In FY 2003 the groundwater assessment account allocation increased from $0.300 million to $0.366 million (SB 322, 2001 Session). In FY 2005 the groundwater assessment account received only $0.114 million due to the correction of a previous error in distribution. The FY 2006 allocation returned to $0.366 million and is expected to stay at $0.366 million through FY 2009.

Third, 50% of any remaining revenue is deposited into the reclamation and development grants account for the purpose of making grants to fund mineral development reclamation projects. This amount has been increasing with the increase of RIT collections. The expected allocation amount for FY 2007 is $0.459 million, for FY 2008 it is $0.486 million, and for FY 2009 it is $0.520 million.

Fourth, the revenue required to increase the natural resource workers' tuition scholarship account balance to $150,000 is deposited into that account. Currently the natural resource workers' tuition scholarship account balance is at $150,000 and is projected to remain at this level. By statute, the natural resource workers' tuition scholarship account terminates June 30, 2007.

Fifth, all remaining proceeds are deposited into the orphan share account. Because the tuition scholarship account will not receive revenue, the orphan share account is allocated the same amount of revenue as the resource and development grants account, or 50% of remaining tax revenue after CLERCA and groundwater assessment. Table 3 shows the allocation of actual and projected resource indemnity tax revenue for FY 2001 through FY 2009.

Table 3
Resource Indemnity Tax Allocation
($ millions)

Fiscal Year	Resource Indemnity Trust	CERCLA match debt service fund	Groundwater Assessment Account	Reclamation and Development Grants Account	Natural Resource Workers' Scholarship Account	Orphan Share Account	Total
A 2001	$0.538	$0.000	$0.300	$0.119	$0.000	$0.119	$1.077
A 2002	$0.612	$0.000	$0.300	$0.156	$0.000	$0.156	$1.224
A 2003	$0.000	$0.000	$0.366	$0.430	$0.150	$0.280	$1.226
A 2004	$0.000	$0.000	$0.366	$0.442	$0.000	$0.442	$1.251
A 2005	$0.252	$0.000	$0.114	$0.535	$0.094	$0.442	$1.436
A 2006	$0.000	$0.188	$0.366	$0.451	$0.000	$0.451	$1.456
F 2007	**$0.000**	**$0.264**	**$0.366**	**$0.459**	**$0.000**	**$0.459**	**$1.548**
F 2008	**$0.000**	**$0.273**	**$0.366**	**$0.486**	**NA**	**$0.486**	**$1.612**
F 2009	**$0.000**	**$0.272**	**$0.366**	**$0.520**	**NA**	**$0.520**	**$1.678**

Data Sources

Forecasts of CERCLA match debt service fund requirements were obtained from the Department of Environmental Quality. Resource indemnity trust balances were obtained from the Board of Investments. Forecasts of resource indemnity tax receipts were based on Department of Revenue reports, coal producer tax returns, coal production estimates obtained from the coal producers, and coal price forecasts from Global Insight.

RESOURCE INDEMNITY TRUST INTEREST

Revenue Description

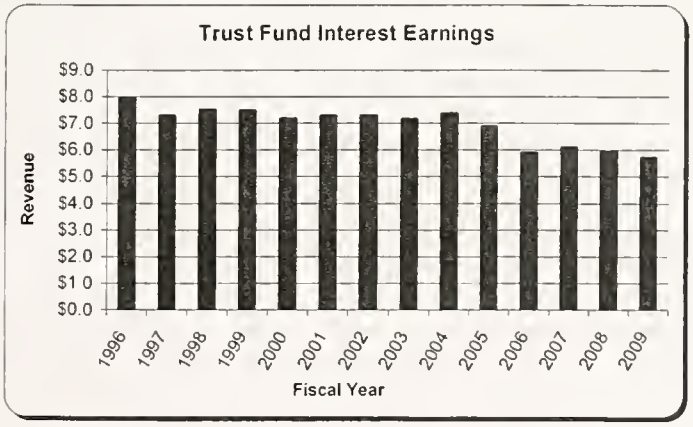
Title 15, Chapter 38, MCA, created a resource indemnity trust fund to indemnify the citizens of Montana for depletion of the state's natural resources and for the environmental damage from mineral development. The trust was to be funded with proceeds from the resource indemnity tax until the trust balance reached $100 million, which occurred in December 2001. Deposits from the resource indemnity tax ceased at that point, and the balance has remained at $100 million. Income from the trust fund is used to fund environmental and natural resource programs.

Historical and Projected Revenue

Table 1 shows actual interest earnings from the resource indemnity trust for FY 1996 through FY 2006 and forecast interest earnings for FY 2007 through FY 2009.

Table 1
Resource Indemnity Trust Fund Interest Earnings
($ millions)

Fiscal Year	Interest Earnings	Percent Change
A 1996	$7.960	
A 1997	$7.318	(8.06%)
A 1998	$7.527	2.85%
A 1999	$7.505	(0.67%)
A 2000	$7.200	(4.36%)
A 2001	$7.306	1.47%
A 2002	$7.321	0.20%
A 2003	$7.174	(2.00%)
A 2004	$7.380	2.87%
A 2005	$6.902	(6.48%)
A 2006	$5.916	(14.29%)
F 2007	**$6.126**	**3.57%**
F 2008	**$5.967**	**(2.61%)**
F 2009	**$5.741**	**(3.79%)**



Interest earnings varied little between FY 1996 through FY 2004. Through this period declining interest rates were offset by fund balance increases. Since January 2002 the fund balance has remained constant at $100 million, but the fund yield has declined. In FY 2004 and FY 2005 large capital gains payouts from the trust fund bond pool (TFBP) offset some of this decline. However, in FY 2006 interest earnings declined 14%. Interest earnings are projected to increase to $6.126 million in FY 2007 due to a slight

increase in the TFBP interest rate. The TFBP rate is projected to decrease in FY 2008 and FY 2009 causing RIT interest earnings to decrease to $5.967 million in FY 2008 and to $5.741 million in FY 2009.

Forecast Methodology and Projection Calculation

There are three steps to forecasting interest earnings from the resource indemnity trust fund.

1. The average balance of the trust fund is projected.
2. The interest earned on the balance is projected.
3. The interest earnings are allocated to various state special revenue accounts.

Resource Indemnity Trust Fund Balances

Trust fund balances are invested in the short term investment pool (STIP) and the trust fund bond pool (TFBP). The Board of Investments (BOI) manages both pools, which are discussed in greater detail in the Interest Earnings Introduction.

Table 2 shows actual and projected average trust fund balances by investment type for FY 2001 through FY 2009.

Almost the entire trust balance is projected to be invested in the trust fund bond pool from FY 2007 through FY 2009, which remains at $100 million. The STIP balance is expected to decrease slightly in FY 2007 to $0.055 million. The FY 2008 and FY 2009 balance is projected to remain the same as FY 2006 balance of $0.062 million.

Table 2
Resource Indemnity Trust Fund
Average Balance by Investment Type
($ millions)

Fiscal Year	STIP Balance	% Total	TFBP Balance	% Total	Average Balance
A 2001	$0.938	1%	$97.630	99%	$98.568
A 2002	$0.827	1%	$99.837	99%	$100.663
A 2003	$0.258	0%	$100.000	100%	$100.258
A 2004	$0.001	0%	$100.000	100%	$100.001
A 2005	$0.065	0%	$100.000	100%	$100.065
A 2006	$0.062	0%	$100.000	100%	$100.062
F 2007	**$0.055**	**0%**	**$100.000**	**100%**	**$100.055**
F 2008	**$0.062**	**0%**	**$100.000**	**100%**	**$100.062**
F 2009	**$0.062**	**0%**	**$100.000**	**100%**	**$100.062**

Resource Indemnity Trust Investment Income

Trust fund investment income is projected by multiplying the fund balance by the projected interest rate for each type of investment. The forecasts of the annual yields of STIP and TFBP are explained in the *Interest Rate Introduction*. Table 3 shows actual and projected income and yield for each investment type in FY 2001 through FY 2009.

Table 3
Resource Indemnity Trust Fund
Investment Income and Rate of Return
($ millions)

Fiscal Year	STIP Income	Rate of Return	TFBP Income	Rate of Return	Reinvested Income Fund Earnings	Total Income	Rate of Return
A 2001	$0.076	8.10%	$7.206	7.38%	$0.024	$7.306	7.41%
A 2002	$0.021	2.56%	$7.286	7.30%	$0.013	$7.321	7.27%
A 2003	$0.006	2.48%	$7.161	7.16%	$0.007	$7.174	7.16%
A 2004	$0.000	1.11%	$7.375	7.38%	$0.005	$7.380	7.38%
A 2005	$0.002	2.37%	$6.890	6.89%	$0.011	$6.902	6.90%
A 2006	$0.003	4.49%	$5.897	5.90%	$0.016	$5.916	5.91%
F 2007	**$0.003**	**5.25%**	**$6.107**	**6.11%**	**$0.017**	**$6.126**	**6.12%**
F 2008	**$0.003**	**4.74%**	**$5.948**	**5.95%**	**$0.016**	**$5.967**	**5.96%**
F 2009	**$0.003**	**4.72%**	**$5.722**	**5.72%**	**$0.016**	**$5.741**	**5.74%**

STIP income is projected to be negligible through FY 2009 due to the very small STIP balance. TFBP income decreased almost $1 million in FY 2006 due to a decrease in the TFBP rate. The TFBP rate is forecast to increase in FY 2007, thus increasing TFBP income to $6.107 million in FY 2007. TFBP income is projected to decrease to $5.948 million in FY 2008 and $5.722 million in FY 2009 due to a decrease in the TFBP rate.

Investment income from the resource indemnity trust (RIT) fund balance is deposited into the RIT income fund. Cash earnings are distributed from the RIT income fund into specific state special revenue funds monthly. Any fund balance remaining in the RIT income fund is reinvested in STIP to earn interest income. Income from reinvestment of RIT income fund balances is projected to be $0.017 million in FY 2007 and $0.016 in FY 2008 and FY 2009.

Table 4 summarizes the actual and projected RIT trust fund balance, average rate of return, and interest earnings for FY 2001 through FY 2009. Interest earnings are projected to decrease to $6.126 million in FY 2007, $5.967 million in FY 2008, and $5.741 million in FY 2009.

Table 4
RIT Fund Balance, Rate of Return and Interest Earnings
($ millions)

Fiscal Year	Average Balance		Rate of Return		Interest Earnings
A 2001	$98.568	x	7.41%	=	$7.306
A 2002	$100.663	x	7.27%	=	$7.321
A 2003	$100.258	x	7.16%	=	$7.174
A 2004	$100.001	x	7.38%	=	$7.380
A 2005	$100.065	x	6.90%	=	$6.902
A 2006	$100.062	x	5.91%	=	$5.916
F 2007	**$100.055**	**x**	**6.12%**	**=**	**$6.126**
F 2008	**$100.062**	x	**5.96%**	**=**	**$5.967**
F 2009	**$100.062**	**x**	**5.74%**	**=**	**$5.741**

Allocation of Resource Indemnity Trust Fund Income

Table 5 shows actual and projected allocations of interest income from the resource indemnity trust fund for FY 2006 through FY 2009.

Table 5
Resource Indemnity Trust Interest Allocation
($ millions)

	Actual	Forecast		
	FY2006	FY2007	FY2008	FY2009
Biennial Fixed Allocations				
Environmental Contingency	$0.175	$0.000	$0.175	$0.000
Oil & Gas Damage Mitigation	$0.050	$0.000	$0.050	$0.000
Water Storage	$0.500	$0.000	$0.500	$0.000
Annual Fixed Allocations				
MSU-Northern	$0.240	$0.240	$0.240	$0.240
Groundwater Assessment	$0.300	$0.300	$0.300	$0.300
Trout Habitat Enhancement	$0.500	$0.500	$0.500	$0.500
Annual Percentage Allocations				
Hazardous Waste/CERCLA	$0.169	$0.412	$0.182	$0.312
Environmental Quality Protection	$0.059	$0.143	$0.063	$0.108
Annual Fixed & Percentage Allocations				
Renewable Resource Grants & Loans	$2.195	$2.476	$2.211	$2.360
Reclamation & Development Grants	$1.728	$2.055	$1.746	$1.920
Total RIT Interest Earnings	$5.916	$6.126	$5.967	$5.741

Interest earnings are distributed monthly to the various state special revenue accounts. Some of the accounts receive a fixed allocation per biennium, some accounts receive a fixed allocation per fiscal year, some accounts receive a percentage each fiscal year of remaining revenue after the fixed allocations have been made, and some accounts receive both a fixed and a percentage allocation.

In the first year of each biennium the following accounts receive these fixed allocations:

- $175,000 is allocated to the environmental contingency account until the account balance reaches $750,000 (75-1-1101, MCA);
- $50,000 is allocated to the oil and gas production damage mitigation account until the account balance reaches $200,000 (82-11-161, MCA); and
- $500,000 is allocated to the water storage account (85-1-631, MCA).

Each fiscal year the following accounts receive these fixed allocations:

- $240,000 is statutorily appropriated to the environmental science and water quality program at MSU-Northern (15-38-202, MCA);

- $300,000 is allocated to the groundwater assessment account (85-2-905, MCA). If the account balance reaches $660,000, this allocation is retained by the resource indemnity trust.

- $500,000 is allocated to the Department of Fish, Wildlife and Parks for the trout habitat enhancement program (87-1-283, MCA). HB 9 (2002 Special Session) reduced the FY 2005 allocation to $350,000.

Each fiscal year any funds remaining after all fixed allocations have been made are distributed to the following accounts in these proportions:

- 26% of remaining funds are allocated to the hazardous waste/CERCLA account (75-10-621, MCA); and

- 9% of remaining funds are allocated to the environmental quality protection fund (75-10-704, MCA).

Each fiscal year the following accounts receive fixed allocations and a proportion of the remaining funds.

- $2 million and 30% of remaining funds are allocated for grants in the renewable resource grant and loan account (85-1-604, MCA);

- $1.5 million and 35% of remaining funds are allocated for grants to the reclamation and development grant account (90-2-1104, MCA);

Data Sources

Investment balances and interest earnings data was obtained from the Board of Investments and SABHRS.

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150 copies of this public document were published at an estimated cost of $9.67 per copy, for a total cost of $1,450.50, which includes $1,450.50 for print and $0.00 for distribution.